



Expecting More From Inspectors?

How integration of the Audit Commission and National Audit Office can help increase public faith in Government

An NLGN Paper by **Anthony Brand**



New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this White Paper as part of its innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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Published by NLGN

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1 *Introduction*

Double-checking the value for money provided in the public sector is a task that needs undertaking with maximum effect. As the management of public services has expanded, so too has the audit and inspection industry shadowing the efficacy of 'delivery'. A range of agencies now exists to ensure that public sector agencies deliver quality of service(s), value for money, effective implementation of policy and the appropriate development of best practice. This expanding network of inspectors and auditors includes, among others:

- National Audit Office;
- Audit Commission;
- Ofsted;
- Home Office Police Standards Unit;
- Criminal Justice Performance Directorate;
- Commission for Social Care Inspection;
- Healthcare Commission;
- Social Services Inspectorate;
- Committee on Standards in Public Life; and
- Housing Corporation (powers to pass to the Office for Tenants and Social Landlords).

Devolution also spawned the Auditor General for Scotland, the Audit Commission in Wales and the National Audit Office in Wales. In 2005 the two Welsh bodies were merged into the Wales Audit Office.

The two largest and most prestigious of these bodies - the Audit Commission and the National Audit Office (NAO) - deliver some or all auditing and performance assessment for Government departments, local authorities, PCTs, LEAs, Housing Associations and the Criminal Justice System (including the courts and the police).

In an age of low voter turnout, alleged ‘voter apathy’ and intense media scrutiny of Government spending, it has become even more important that these institutions deliver on their duties and facilitate stronger democratic oversight and scrutiny.

To fulfil this role they must themselves keep pace with the rapid changes occurring across the public sector. This means remaining flexible, relevant, efficient and well-regarded by both the sector and the wider public. In order to achieve this, we recommend:

- **Merging the Audit Commission with the National Audit Office;**
- **Developing a more consistent, outward looking and public facing concept of public and civil service inspection;**
- **Setting out a new strategy to become the first port of call for the public and politicians looking to measure the success of or improve public policy; and**
- **Developing a ‘Local Authority Call to Action’ (LACtA) Protocol that allows local authorities to review the impact of Government decisions, policies and action on the local ability to achieve policy goals.**

There are several reasons that such a move may be appropriate now:

- Increasing similarities between output and overlap in duties
- Efficiency savings through economies of scale
 - Both the ability to share best practice and skills; and
 - Cost-efficiency
- Responding to the changing nature of inspection
 - Reducing red tape
 - Aligning goals
 - Delivering clarity and inter-comparability
 - Becoming outward facing

- The NAO is seeking direction following the imminent departure of Sir John Bourn, Comptroller and Auditor General for twenty years.

The sections below highlight each of these areas in turn and explain the benefits that merging the auditing bodies might bring.

2 Similarities and overlap in duties

Mission Statements Audit Commission

Figure 1

“We are an independent public body responsible for ensuring that public money is spent economically, efficiently, and effectively in the areas of local government, housing, health, criminal justice and fire and rescue services.”

Our mission is to be a driving force in the improvement of public services. We promote good practice and help those responsible for public services to achieve better outcomes for citizens.”

National Audit Office (NAO)

“The National Audit Office scrutinises public spending on behalf of Parliament. We audit the accounts of all central government departments and agencies, as well as a wide range of other public bodies, and report to Parliament on the economy, efficiency and effectiveness with which they have used public money. As well as providing accountability to Parliament, we aim to bring about real improvements in the delivery of public services.”

It is obvious from the statements in figure 1 above that these agencies have similar goals and values. Both seek to maximise the value for money achieved with the public purse, to drive efficiency and to improve the internal workings of public sector departments and agencies. This alone should suggest a close working between the two audit agencies, but is there more evidence under the surface and what do the two bodies actually do?

Last year the NAO published 60 major reports for Parliament, provided

support for Select Committees as well as supporting other nations *“to embed the sound principles on which our own systems of scrutiny are based”*. It also audited the financial statements of all central government departments, agencies and other public bodies, reporting the results to Parliament. The Audit Commission meanwhile, inspected local public services and reported back to the public and Government on the results. It also helped local authorities to continually improve what they do, appointed independent auditors and regulated the work they do.

At face value these two bodies appear somewhat different in their outlook, if not in their activities. The NAO appears to deliver to Parliament and looks to the wider international community while the Audit Commission claims to face the public and to deliver locally. In reality, the NAO already conducts reports into local issues such as the production of LSPs. Similarly, the Audit Commission has undertaken several national level reviews and reports. In fact, both readily acknowledge the need for their remits to overlap at times.

“[Audit Commission Reports] often identify obstacles to the improvement of local public services that lie beyond the remit of local bodies themselves, including national issues and those relating to other public and non-public bodies.”

In fact, the nature and content of the work produced by the two bodies overlaps in several areas. The table in figure 2 highlights a small sample of the reports produced by the two agencies during the last year. A cursory glance is all that is needed to see clear similarities between the two work-streams. Based on this evidence alone a plausible argument could be made for merging the inspection bodies.

On other occasions, such as the analysing of delivery chains in healthcare, the NAO and Audit Commission worked together with other inspectorates to deliver the required depth and range of analysis. This cross agency-working is becoming increasingly common and important in delivering effective analysis.

Finally, the focus of both bodies remains (intentionally or otherwise) on reporting to Government rather than the public. Public awareness of the two organisation's roles is low and public scrutiny and understanding of their output more limited still. For example, few people are aware of their council's star rating under CPA. For the most part the work of both is used as a media and party political tool for finding fault with Government policy, a scrutiny tool for politicians to hold each-other to account and a mechanism for Westminster to monitor and hold to account local agencies. Each of these functions may be important in its own way, but it does not support the publicly-led, citizen-focussed and outward facing participative political system that we aspire to for British democracy.

Audit Commission Reports 2006-07

Figure 2

- *The evolution of regulation*
- *Improving Information to Support Decision Making: Standards for Better Quality Data*
- *Improving health and well-being*
- *The move to international financial reporting standards*
- *Assessment of local services beyond 2008*
- *Securing Community Benefits through the Planning Process*
- *Stewardship and governance 2005*

National Audit Office Reports 2006-07

- *Public funding of Large National Charities - Good Governance Report*
- *Homebuilding: Measuring Construction Performance*
- *Local Area Agreements and the Third Sector: Public Service Delivery*
- *Getting the best from public sector office accommodation*
- *Sustainable procurement in central government*
- *The Third Sector and Public Policy*
- *Good Governance Study - Targeting Inequalities*
- *International Health Comparisons*

3 *Economies of scale*

Best practice and skills

With such a clear overlap in values, direction and output, there is clearly a lot that the organisations could learn from each other. In fact, the various public audit bodies already claim to work closely together to share good practice. To this end they established the *Public Audit Forum* to act as a focus for developmental thinking on public audit. Merging the two entities completely should lead to further increases in efficiency, best practice and operational effectiveness as well as a more holistic view of public services. In this way integrating the two bodies may lead to a more responsive and flexible inspection system.

“Neither the form of public services nor the best way to inspect them can remain static if they are both to be fit for purpose...[and] capable of being tailored to the circumstances of different spatial sizes.”

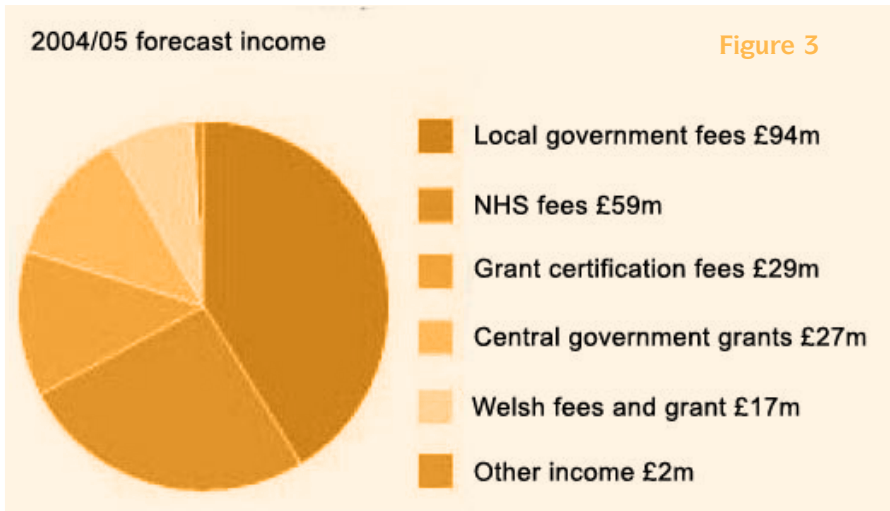
Cost Efficiency

In 2003 the Government embarked on a strategy of rationalising the inspection regimes that were burgeoning across the public realm, and pursued a number of mergers between specialist inspectorates. The Audit Commission and NAO remained unaffected. A look at the annual accounts of the two organisations suggests that their integration might also deliver financial efficiencies.

Audit Commission

The Commission’s income totalled £223.6 million of which £194.4 million (87%) related to fees and £25.9 million related to grants received from government departments (sundry income of £3.3 million). In 2003/04, the Commission’s income of £240 million represented just over 0.1 per cent of

local government and health service expenditure. Overall income is forecast to fall by £51 million (21 per cent) over the next three years. At 1 April 2004 the Commission directly employed 2,392 staff, at a cost of £114m. The Commission employs around 2,400 staff that deliver audits (1,329), CPA, assessment and improvement (805), research and analysis (101) and central management duties (157).



National Audit Office

The required NAO budget for next year is around £109 million, a fifth of which will come from income generated, including audit fees paid by international clients. In return, the NAO identified £582 million of savings last year, exceeding their 8:1 target and auditing over 480 accounts covering more than £800 billion of income and expenditure. The NAO has 850 staff.

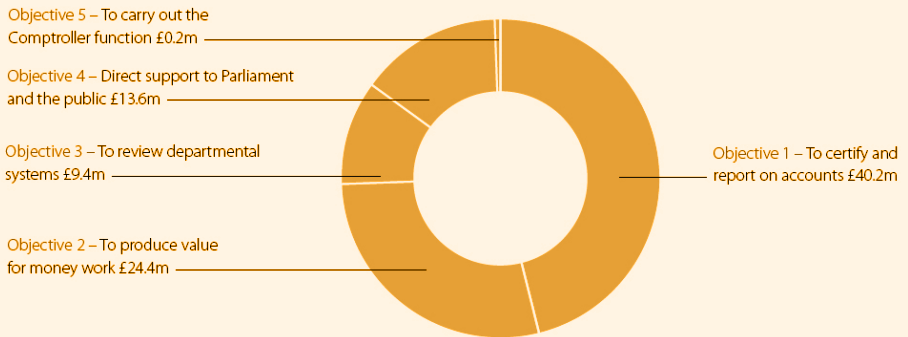
Though relatively small compared to other quangos and Government agencies the budgets of these organisations are still significant. Savings could be made through economies of scale, shared facilities and backroom processes, as well as increases in front-line efficiency delivered through shared best practice and expertise. A similar merger in Wales is expected to deliver savings through shared IT, HR and buildings, as well as through the

rationalisation of work-streams. Final cost savings for the Welsh merger have not been released but based on similar moves elsewhere in the sector we might expect the merger of the NAO and Audit Commission to release up to £20 million in cashable savings.

It should be noted that the organisations themselves already have stretching targets for delivering value for money and the NAO has set a goal of delivering a value for money ratio of 9:1. A merged audit body may help them achieve this target.

National Audit Office Annual Report 2007

Figure 4



	Estimate £m	Outturn £m	(Saving)/excess £m	percent
Audit and assurance services (Estimate subhead A)				
Gross resource requirement	87.872	87.828	(0.044)	(0.1)
Income	(17.500)	(19.980)	2.480	14.2
Net resource requirement	70.372	70.328	(0.044)	(0.1)
Capital	2.000	1.492	(0.508)	(25.4)
Refurbishment project (Estimate subhead B)				
Net resource requirement	0.832	0.831	(0.001)	(0.2)
Capital	0.120	0.120	-	-
Net cash requirement	71.200	70.985	(0.215)	(0.3)

4 *The changing nature of inspection*

We have seen that there is already an overlap in the current practices of these two organisations and that cost efficiencies may be derived from their integration. More than that, the future direction of inspection also points to a single, streamlined and integrated auditing body.

Reducing Red Tape

There is widespread recognition that regulation has become burdensome, particularly for high performing local public bodies. The recent push in the public sector, as in the private, has been for a lighter touch approach to regulation, a reduction in 'red tape' and a move to risk-based assessment. This means a reduced role for bodies such as the Audit Commission who will no longer be expected to produce the large number of corporate audits, service inspections and national indicators that they have in the past. For example, the local government white paper implementation has reduced over 1,000 performance indicators to just 198. This reduced inspection role will require a different assessment process and a new set of skills as well as a potential reduction in the resources necessary to deliver it.

Aligning goals

These new indicators are now more closely aligned with central PSAs, suggesting that the work of the Audit Commission and the NAO will become more similar still. The success of Government policy increasingly relies on partnership with and delivery through local agencies, once again bringing the work of the auditing bodies closer together.

Furthermore, in 2009 the CPA is due to be replaced in its entirety by a new Comprehensive Area Assessment (CAA). This new outcome focused, multi-agency, area-based assessment will require auditing bodies to look across the board at the way in which a local vision for an area is delivered. A large part

of this CAA assessment is likely to be based around LAAs. These agreements, negotiated between local delivery partners and the Government will require negotiation over and agreement on joint targets and priorities as well as funding mechanisms for delivery.

At the same time discussions are ongoing about the future of the UK's regional and sub-regional bodies. In particular, decisions are being made on how the new style, more influential RDAs will be held to account. This mid-level structure currently sits between the NAO (which audits the existing Regional Assemblies) and the Audit Commission (local authorities are expected to have more input into regional decisions in future).

However this issue is resolved, an effective auditing agency would need to look across the whole array of central, regional and local agencies, strategies and practices to judge accurately who is delivering and who is not. As the Audit Commission itself states:

“Retaining the wider perspective is particularly important in view of local authorities local leadership role and the government’s ambitions for coherent and effective joining-up of service design, commissioning, delivery, and performance management.”

Delivering clarity and inter-comparability

Central to the new audit regime is clarity of purpose and expectation. Creating a clear, transparent and public-facing inspection and audit system requires consistency. The Audit Commission, Audit Scotland, the National Audit Office, the Northern Ireland Audit Office, and the Wales Audit Office have already worked to produce five sets of indicators which allow organisations to assess and compare the value for money performance of their business across the areas of:

- Finance;
- Human resources;
- Information and communication technology;

- Estates management; and
- Procurement

These indicators should and do apply just as much to the Audit Commission's work with local public services as they do to the NAO's work centrally. However, there is currently limited consistency between the assessment outputs of the two agencies. The completion of Government's Capability Reviews raised questions of fairness and thoroughness when compared to local government's own assessment process. While local authorities must produce and answer to a raft of complex indicators, strategies and assessments, capability reviews appear to be very top-line and simplistic measurements. Greater consistency is needed.

Developing a standardised view of inspection across central and local government could be another step toward achieving the goals of the devolution agenda. Ensuring that departmental capability reviews were delivered in a similar fashion to CPA and with equal rigour would put local government on a similar footing to Westminster and be a foundation stone for a new, more equal relationship.

The integrated body could provide further opportunity to redress the central/local balance by creating a 'Local Authority Call to Action'. This would ensure that any centrally managed policy, department or target that unduly impacts on local government's ability to deliver effective, value for money services could be called to account by local authorities. A petition signed by the majority of Leaders and Chief Executives would commit the new audit body to inspect the delivery agency involved and/or report on its impact on local delivery.

There are other benefits to aligning the auditing processes, particularly for local government. A more consistent and cross-comparable set of indicators is likely to highlight the now widely accepted view within public sector circles that local authorities have outperformed their central Government counterparts on delivering value for money, efficiency savings, sustainable

procurement practices, clear organisational strategies and in a range of other performance areas. If nothing else, this could help address the too often held public perception that councils are disorganised, distant and inefficient.

The alignment of the NAO and Audit Commission can ensure this consistent, joined-up approach is in place. The head of the NAO himself stated to the Select Committee on Welsh Affairs that the merger of the two main audit bodies in Wales would “provide a much better statutory framework for the scrutiny of public expenditure in Wales...[including]:

- working across organisational boundaries;
- a consistent approach to audit across the Welsh public sector; and
- the ability to follow public money through the funding chain to end recipients.”

Becoming outward facing

Integrating the two bodies and ensuring their methodologies are similar could also help deliver a more outward and public-facing organisation. Reports and statistics could be designed more specifically to increase public faith in our institutions rather than used as tools for party political gamesmanship and driving media headlines. Enforcing this view would also support Gordon’s Brown’s stated desire for a more ‘open, honest and transparent kind of politics’.

“The challenge facing public service regulators, including auditors and inspectors, is to judge the performance of individual bodies in a wider context, using criteria that are consistent with what people experience and value. Otherwise the gaps between the public’s perceptions, external assessments, and conclusions drawn by politicians about public services will not diminish.”

Audit Commission (2006) *Inspection reform: the future of local services inspection*

The integration of methodologies and indicators across and between the two work-streams would ensure that citizens could compare and contrast the performance of all Government departments and agencies. In an era of

increased citizen-focus within public services, accountability to the public as well as Parliament will become more and more important.

Accountability to elected representatives

The special relationship between the National Audit Office and the House of Commons Public Accounts Committee (PAC) has been the cornerstone of parliamentary scrutiny of public expenditure and efficiency for over a century. We believe that the excellent work of the PAC could be enhanced to reflect the true inter-connected nature of public services today. If the NAO were to join forces with the Audit Commission, it would allow parliamentary scrutiny to take place with fewer artificial boundaries and limitations. In turn, the leadership of the local government community, perhaps through the Local Government Association, could have an interface with a stronger audit body cutting across departments, agencies and localities. This would give both Ministers and local Leaders a truer picture of the efficacy of public service activities and decisions.

5 Conclusion

A modern auditing and inspection framework must remain appropriate for and relevant to both the things it inspects and the people it reports to. In the public sector this means matching the framework to the modern policy goals of devolved governance, reduced inspection burdens, increased citizen-focus, improved efficiencies and greater responsiveness. It is with this in mind we make our recommendations.

In many ways what we propose should not be considered controversial as it is merely an extension of what the organisations themselves have implicitly advocated. They have, in recent months, stated that they will:

- Work closer together;
- Deliver a more flexible and responsive framework;
- Reduce the extent and frequency of inspections;
- Develop more consistent and comparable standards across their work;
- Deliver increased value for money;
- Expand and widen remits to look more holistically at policy and delivery;
- Create a system that is clear, tangible and more relevant to the public's experiences.

Simply integrating the two bodies, and perhaps in future their peers, would go some way to delivering on these aims. Consequently, we argue that:

The National Audit Office and Audit Commission should be merged and integrated into a new organisation, *Audit UK*.

This merger should lead to efficiency savings of up to £20 million and allow a more comprehensive, holistic audit and inspection process that can track policy and expenditure from Government through to its impact on the end user. The output of this new organisation should be made more consistent and comparable across all public sector bodies.

Capability Reviews and CPA (new CAA) should be conducted in a similar fashion with inspection reports that are comparable and equally comprehensive.

This new body should concern itself more with public-facing output, public engagement and building confidence in public services through independent analysis that is distanced from political gamesmanship.

All work undertaken by the new body should have a duty to regard the public in its reporting and dissemination.

Furthermore, in order to support a new balanced, independent and public-facing view of public policy, the system must take more account of local government's own democratic mandate in relation to central Government's.

A 'Local Authority Call to Action' (mirroring the relationships between citizen and local government as set out in the recent Local Government Act 2007) would allow local government to demand a review of any Government policy or area of performance that unduly and disproportionately affected local authorities' ability to deliver on their own priorities.

This would be triggered by a petition signed by a majority of Chief Executives and Leaders, delivered through the LGA.

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