

PUBLIC AUDIT FORUM

IMPLICATIONS FOR AUDIT OF THE MODERNISING GOVERNMENT AGENDA

A Paper by the Public Audit Forum

22 April 1999

Public sector audit has a key part to play in safeguarding public money, ensuring proper accountability, upholding proper standards of conduct in public services and helping public services achieve value for money.

The Public Audit Forum was established in 1998 by the four national audit agencies, that is the National Audit Office (NAO) the Northern Ireland Audit Office (NIAO) the Audit Commission for Local Authorities and the National Health Service in England and Wales and the Accounts Commission for Scotland, to provide a focus for developmental thinking about public audit.

The Public Audit Forum has a specific remit to build on the existing co-operation between the national audit agencies to enhance the efficiency and effectiveness of public audit, to provide a strategic focus on issues cutting across their work and to develop common standards for public audit. We are pleased to endorse this paper, prepared by a consultative forum which draws on the experience and expertise of public auditors, the bodies they audit, the auditing profession and the wider community.

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FOREWORD

1. The Modernising Government agenda represents a significant change in the public service environment. The Public Audit Forum recognise that its successful implementation will require new ways of working, and have therefore prepared this Paper setting out their view of the issues relating to the public audit process and how those involved can respond to them. The Paper has important messages for all auditors of public bodies and for all those responsible for implementing the Modernising Government agenda across central and local government and the NHS.
2. The agenda for Modernising Government, originally outlined in the White Paper on the Comprehensive Spending Review, has been presented in more detail in the Modernising Government White Paper (Cm 4310). The aim, in essence, is to produce more responsive and higher quality public services which are “joined-up”, outcome-focused and apply a whole-systems approach to performance measurement. Implementing this programme involves significant challenges for managers in the public and private sector organisations concerned. Public auditors too will need to be open-minded in their response to this programme.
3. The Public Audit Forum has analysed the implications of the Modernising Government Agenda, with proposals for the way forward, under the following six headings:
 - the need for new forms of accountability (paragraphs 7-12);
 - the readiness of auditors as well as managers to embrace change (paragraphs 13-18);
 - the challenge of assessing value for money where more than one body is involved (paragraphs 19-22);
 - the importance of performance measurement (paragraphs 23-29);
 - the need to maintain financial discipline and ensure the legality of expenditure (paragraphs 30-34);
 - the importance of co-operative working between auditors (paragraphs 35-47).
4. In any new initiative such as Modernising Government the nature of the accountability framework is central to the auditor’s response. As well as pointing to the issues on accountability which will need to be resolved by central government, this Paper sets out

the approach public auditors should adopt to play their role in the Modernising Government agenda most effectively. In doing so, it draws on best practice already followed by the national audit agencies. It emphasises the value of co-operation and joint working between management and auditors and between auditors themselves.

5. The Public Audit Forum are also issuing a Consultation Paper on “What public bodies can expect from their auditors” which will cover the more general issues relating to the relationships between public sector bodies and their auditors.

INTRODUCTION

1. The Modernising Government Agenda, originally outlined in the White Paper on the Comprehensive Spending Review, has been set out in more detail in the Modernising Government White Paper (Cm 4310) published in March 1999. The three main aims underlying the agenda are:
 - Ensuring that policy making is more joined up and strategic;
 - Making sure that public service users, not providers, are the focus, by matching services more closely to people's lives;
 - Delivering public services that are high quality and efficient.

2. The new ways of working and experimentation inherent in realising these aims are to run alongside independent and rigorous validation of the processes and achievements of Government, with the aim of producing public services which are, "joined-up", outcome-focused and apply a whole system approach to performance measurement. The commitments of particular relevance to this paper are:
 - Policy making which will be forward looking in developing policies to deliver outcomes that matter, not simply reacting to short term pressures.
 - Responsive public services which meet the needs of citizens, not the convenience of service providers, with a big push on obstacles to joined-up working, through local partnerships, one-stop shops, and other means.
 - The delivery of efficient, high quality public services by: reviewing all central and local government department services and activities over the next five years to identify the best supplier; setting new targets for all public bodies focusing on real improvements in the quality and effectiveness of public services; and monitoring performance closely so as to strike the right balance between intervening where services are failing and giving successful organisations the freedom to manage.

3. Implementing this programme successfully involves significant challenges for managers in the public and private sector organisations concerned. They will need to be imaginative and inventive in pursuing the efficient and effective delivery of public programmes and projects, taking care at the same time to safeguard the handling of public money. Auditors too will need to be open-minded in their response to these

programmes; they will not stifle worthwhile innovation designed to lead to improvements both in the services themselves and in the results which these services are intended to achieve.

4. A working group of the Public Audit Forum has analysed the audit implications for central government, local government and the National Health Service of the Modernising Government agenda. Their conclusions, along with the views of the Consultative Forum are set out in this Paper, which addresses the implications for audit of the Modernising Government agenda and therefore concentrates on the effects on the auditor's work. It has been prepared alongside other work in Government including the Cabinet Office Productivity and Innovation Unit Project on Accountability and Incentives. The Project Team has noted that there are many important issues that will be critical to the success of Modernising Government including the responsibilities of Ministers, Departments and Accounting Officers, the legislative process, the structure of Parliamentary Select Committees, the funding of public expenditure as well as audit.
5. In any new initiative, including Modernising Government, the nature of the accountability framework is central to the auditor's response. Parliament and the taxpayer need to be assured that public funds are spent properly, wisely and in accordance with the law. Elected representatives, including the Committee of Public Accounts and members of local authorities, have a key role in holding the executive to account for the way public funds have been spent. Public audit plays an essential role in maintaining public confidence in both the effective stewardship of public funds and those to whom this responsibility is entrusted.
6. The Public Audit Forum have identified the following six main implications of the Modernising Government agenda:
 - a) *The need for new forms of accountability*
 - b) *The readiness of auditors as well as managers to embrace change*
 - c) *The challenge of assessing value for money where more than one body is involved*
 - d) *The importance of performance measurement*
 - e) *The need to maintain financial discipline and ensure the legality of expenditure*
 - f) *The importance of co-operative working between auditors.*

These implications are analysed in this paper along with proposals for the way forward.

NEW FORMS OF ACCOUNTABILITY

7. Public services exist to serve the citizen. The concept of Modernising Government envisages more sophisticated and co-operative approaches to cross-cutting issues, stressing the importance of partnership, co-ordination and joint working to deliver services that should appear seamless to the recipient. Where the Government allocates responsibilities for overseeing and implementing programmes across a number of bodies, there may be a need for new forms of accountability which ensure that it is clear who is accountable for what and to whom. This is because:
 - More services may be delivered by a wider coalition of bodies - in the public, charitable, voluntary and private sectors, and both centrally and locally - than has traditionally been the case, which may blur the accountability to Parliament and other elected representatives of the bodies delivering joined-up services. Examples could include the Single Regeneration Budget, National Childcare Strategy and the New Deal for Communities.
 - There may be joint responsibility, for instance for pooled budgets, or one department might be accountable for policy or resource allocation and another for delivery.
8. In considering such changes, Parliament and members of local authorities will need to approve as with other programmes, the levels of finance to be provided to Modernising Government initiatives; receive independent assurance that money has been spent in line with their intentions and the law, with regard to the proper conduct of public business, and that there are arrangements in place to ensure the efficient and effective administration of these funds; and hold to account those responsible.
9. Public sector management needs to ensure that a clear governance framework, and accountability and reporting arrangements, are established at the outset of Modernising Government initiatives setting out who is accountable to whom and for what. Audit is an essential part of the corporate governance arrangements, which include the constitutional and legal framework, organisational and funding structures, and the accountabilities and responsibilities which flow from them. Auditors need a clear understanding of the framework in order to carry out their responsibilities. It would be

helpful if the Accounting Officer Memorandum made explicit reference to developments under the Modernising Government agenda.

10. In setting clear accountability frameworks for new forms of service delivery, public sector management need to consider the following:
 - Sponsoring bodies should be accountable for establishing a framework for financial control and performance, and for the effective monitoring of compliance, including, for example, their internal audit service or the delegated bodies' own auditors.
 - Where central government funding is involved, the accountable persons who would be called before the Committee of Public Accounts should be identified. This would probably require a written framework, such as already exists between departments and Non-Departmental Public Bodies, and between many funding bodies and the recipients of their funding.
 - Where accountability for a particular programme or budget is shared, more than one Accounting Officer is likely to be invited to give evidence to the Committee of Public Accounts. This might happen, for instance, where there was a joint managing board for a pooled budget, such as in Government Offices for the Regions.
 - Another option would be for one accounting officer to represent the others. Alternatively, where the programme or project is material and ongoing, it would be an option to appoint the senior official responsible for the management of the pooled budget as the accountable officer.
 - Central accountability for local performance raises a number of issues, some of which already arise, for instance, in higher education and the Criminal Justice System. Departmental Accounting Officers need to demonstrate to Parliament that they are carrying out their functions properly and well, and that they have sufficient assurance about the systems for local service delivery.

11. Providing public services in the most cost-effective way possible involves an increasing variety of service delivery methods involving private as well as public sector bodies, including Non-Departmental Public Bodies, executive agencies, trading funds and other arms length arrangements. All of these involve delegation of responsibilities and to work effectively the sharing of responsibilities needs to be agreed and set-down. Joined-up

working already occurs in some of these arrangements. Government Offices for the Regions are an early example where accountabilities have been clearly set out (Box 1).

Box 1: Government Offices for the Regions

Government Offices for the Regions are jointly funded and staffed by three government departments: the Department of the Environment, Transport and the Regions; the Department for Education and Employment; and the Department of Trade and Industry. Government Offices' running costs are pooled. The head of each Government Office is appointed as the Regional Accountable Officer, is accountable to each of the Principal Accounting Officers in the three departments, and is liable to be called before the Committee of Public Accounts with regard to the running costs of that Government Office.

12. The principles of governance and accountability are fundamental to the statutory basis of the public audit regime, which is based on the appointment by Parliament, the Audit Commission or Ministers of auditors to report on legal entities. In most cases Modernising Government is not likely to result in the creation of separate legal entities, but will involve looser partnerships and working arrangements. In this context auditors need to consider the following:
- Subject to their legal obligations and reporting requirements, they would need to be satisfied that public bodies' responsibilities are clear and robust, and work. In most cases, it would be sensible for audited bodies to consult their auditors in advance on arrangements for oversight, control and accountability.
 - They need to obtain sufficient evidence about the way bodies are delivering services to enable them to assess whether the funding bodies have established a framework for control and performance and whether this has been effective. This may require public bodies to provide for such access rights in the arrangements they make with each other and with organisations in the private and voluntary sectors. However, in discharging their specific remits, public auditors will not automatically exercise their own rights of access. They will seek to co-operate with other auditors and use each other's work with a view to minimising any overlap of audit examinations, for example by exchanging evidence or by joint audits.
 - It will in some instances be sensible to "pool" the audit arrangements. The responsibility for different audit assignments in the same body may fall to different public auditors to follow the line of accountability. This might happen where, for instance, accountability for the cost-effectiveness of the programme rests with the

funding body, and accountability for financial management and accounting rests with the recipients. This need not prevent auditors exploring the scope for pooling their resources by using each other's work or working jointly, as already happens (Box 2), though there are some constraints on the national audit agencies outside their control (set out at paragraph 46).

- Where public bodies establish "joint entities" they will need to ensure that the financial affairs of such entities are properly presented in their financial statements. They will have to take account of the relevant guidance on accounting and financial reporting, which may require the "joint entities" to be shown as a joint venture.

Box 2: Joined-up Audit of Housing Benefit:

The Department of Social Security sets the policy and regulations for housing benefit, and with other central government departments, subsidises the costs. Local authorities administer the benefit. For its financial audit of housing benefit, the National Audit Office's audit of departmental grant claims relies on the work of the Audit Commission's appointed auditors of local authorities, as these bodies are accountable locally for the way they administer services. In examining the value for money achieved by the Department from the housing benefit programme the National Audit Office nonetheless needed to examine performance at local level. This examination was conducted jointly with an Audit Commission review of the discharge by local authorities of their accountabilities. The National Audit Office and Audit Commission produced separate reports.

READINESS TO EMBRACE CHANGE

13. An essential element in the Modernising Government agenda is the encouragement it gives to public bodies to adopt innovative and flexible approaches to service delivery, as demonstrated in initiatives such as the New Deal for Communities. The question for auditors is whether there is scope to develop their approach to new ways of doing things in order to facilitate innovation.
14. Auditors must support and encourage worthwhile change. Auditors at both national and local level have demonstrated their willingness and capacity to respond to the changing public service environment. They should now ensure that they understand the objectives and practical implications of the Modernising Government programme and respond constructively and positively to such initiatives in ways which are consistent with their professional standards and statutory duties. Such an approach would be in line with the way that the national audit agencies have approached other new initiatives, such as the Private Finance Initiative (Box 3).

Box 3: The National Audit Office's approach to reporting on the Private Finance Initiative

This is a good example of how the public auditor helped to facilitate an innovative initiative. At the outset of its work on examining individual Private Finance Initiative deals, the National Audit Office issued a press notice saying (a) that it recognised that successful implementation of the Private Finance Initiative approach would require audited bodies to be innovative and to take risks, and (b) that the National Audit Office would, in its audit work, support risk-taking and innovation in such circumstances, provided it was well thought through. In a parallel initiative directed at the highest levels of management in departments, the National Audit Office also made clear that it would want to identify the things that have gone well as well as those that have gone badly and to give credit where it was due. Following the press notice, the Permanent Secretaries to the Treasury and the Cabinet Secretary jointly wrote to all Permanent Secretaries outlining the National Audit Office's approach as a means of providing reassurance on the audit approach to be adopted.

15. Innovative and flexible approaches to service delivery are fully compatible with concern for the conduct of public business and care for the honest handling of public money. As the Committee of Public Accounts noted in their Report on the Proper Conduct of Public Business¹:

“Some allege that the drive for economy and efficiency must be held back ... because of the need to take specific care with public money. Others argue that if economy and efficiency are to be forcibly pursued then traditional standards must be relaxed. We reject both these claims. ... There is no reason why a proper concern for the sensible conduct of public business and care for the honest handling of public money should not be combined with effective programmes for promoting economy and efficiency.”

16. It is important that the role of audit is not misunderstood by those managing public money. As noted by an Efficiency Unit Scrutiny of construction procurement in 1995², operational staff may sometimes blame Departmental finance sections, the Treasury or auditors for imposing rigid procedures and discouraging people from exercising their judgement. The Scrutiny found that it was not clear whether this represented a genuine problem or an excuse for taking the easiest course when awarding contracts or setting up financial controls. In either case, public sector management and auditors need to consider how they can contribute to the new approaches expected under Modernising Government, at the same time as fulfilling their duties within the public sector corporate governance framework. It is important for public sector management and auditors to

¹ Eighth Report, Committee of Public Accounts, 1993-94, HC 154, paragraph 5

² Paragraphs 62-65

develop a positive message that the need to ensure proper accountability will not be treated as an excuse for missing opportunities to deliver better value for money. The Forum's views are set out in the following box:

Box 4: The Auditors' approach to Modernising Government initiatives

Modernising Government represents a significant change in the public service environment, and its successful implementation will require new ways of working. The goal of achieving more efficient and effective delivery of public programmes is one that is shared between public sector managers and auditors and the Public Audit Forum do not want fear of the risks of change to stifle worthwhile innovation designed to lead to improvements. So we encourage auditors to respond constructively and positively to Modernising Government initiatives and support worthwhile change.

Public sector managers are of course responsible, as stewards of public resources, for assessing and managing the risks associated with innovation and increased flexibility, and for ensuring the proper conduct of public business and the honest handling of public money while pursuing innovative ways of securing improvements in public services. It remains important to ensure proper accountability, but this must not be approached in a rigid way which might mean missing opportunities to deliver better value for money. And auditors will respond to this new environment positively and constructively by:

- adopting an open-minded and supportive approach to innovation (including the use of techniques tried elsewhere), examining how the innovation has worked in practice and the extent to which value for money has been achieved;
- in the process, supporting well thought through risk-taking and experimentation;
- consistent with their independent role, providing advice and encouragement to management implementing Modernising Government initiatives by drawing on their audit work in this area, seeking to identify and promote good practice so that experience can be shared and risks minimised.

In these ways we believe auditors can support and encourage worthwhile change, while providing independent scrutiny and assurance and fulfilling effectively their statutory and professional responsibilities.

17. It is important to note that it is management's responsibility to decide before the event whether an initiative is likely to deliver value for money. The audit process may contribute to an evaluation afterwards of whether value for money has actually been delivered. In demonstrating their readiness to embrace change, public auditors will therefore support managers in:

- stressing that the focus should be on whether innovation represents better value for money, bearing in mind that avoiding innovation may itself not represent value for money, rather than any concern that innovation has been chosen. This will mean evaluating the value for money achieved by the programmes against the

objectives set for those programmes and communicating effectively how the evaluative criteria they will use are consistent with those objectives.

- recognising that, especially at this early stage, aspects of these new arrangements will be experimental and that the public bodies concerned will be learning from experience. It will be important to seek to identify and disseminate lessons from that experience, recognising that not all pilot projects may be equally successful.
- recognising that it is the responsibility of managers, as stewards of public resources, to assess and manage the risks associated with innovation and increased flexibility; and to ensure that public money is honestly handled while pursuing innovative ways of securing improvements in public services.

18. While maintaining their independent role, public sector auditors will provide advice and encouragement to management in implementing Modernising Government projects and, by drawing on their audit work in this area, seek to identify and promote good practice, so that lessons can be learned and risks minimised. Value for money work programmes need to be drawn up which recognise the importance attached to the joined-up government initiative. Public auditors need to be sensitive to the new environment, and show that they are adapting to it; and in practice the National Audit Agencies are already doing so. The National Audit Office, for example, has given one of its operational Units responsibility for developing a strategy and appropriate audit methodologies to address the emerging Modernising Government agenda. The Audit Commission has recently affirmed its longstanding commitment to taking a citizen perspective (Box 5 below).

Box 5: Taking a citizen perspective - the Audit Commission's approach³

The Audit Commission has a wide remit across the public sector and is well placed, through its studies and audit regime, to facilitate multi-agency solutions to the delivery of important services. It also has a strong track record in undertaking studies that cut across boundaries – whether organisational, professional or geographic – which dates back to 1986. More recently, it has undertaken an increasing number of studies that view services from the user's perspective. Given the expectation placed on authorities and trusts to find new ways of working across boundaries and delivering services which focus on the citizen's needs, and its wide experience and remit, the Commission will continue to develop its cross-sectoral approach, emphasising what works well and helping to spread innovation and good practice.

The Audit Commission intends to:

- Maintain the emphasis on citizen focus in its national study programmes by developing further studies that address services which cross organisational, professional and geographical boundaries and that take a user perspective;
- Promote innovative approaches to the local application of national studies that look across the whole local agenda. It will develop and deliver a range of products that are not constrained by organisational boundaries;
- Undertake research into what contributes to successful multi-agency and cross-boundary working at local level; and
- adapt its processes for undertaking citizen-focused studies, both nationally and locally, to reflect the developing public service environment and the work of other regulators and inspectors.

ASSESSING VALUE FOR MONEY WHERE MORE THAN ONE BODY IS INVOLVED

19. One aim of Modernising Government is to encourage public bodies to work more closely together in delivering a responsive service to the citizen. This may involve public funds provided by a lead department but spent by a variety of bodies, private as well as public, in pursuit of a programme. The Single Regeneration Budget is an example. Or one public body may incur expenditure designed to improve not only the services it provides but also services provided by other public bodies. An example is the development of the Police National Computer (see Box 6).

³ Extract from "Changing Picture: Sharper Focus – Strategy 1999-2002", Audit Commission

Box 6: Assessing value for money where one public body incurs expenditure intended to benefit others

The integration of business and information systems in the Criminal Justice System is a good example of how value for money might need to be assessed beyond a body's boundaries. A number of criminal justice agencies (police, courts, probation and prisons) need access to the criminal records information on the Police National Computer. Although it will be some time before most of these agencies will be able to develop direct links to the database, the Police National Computer Directorate is investing in the development of a generic interface which all the agencies will be able to use at the appropriate time. This investment is justified on the basis of economies of scale for the Criminal Justice System as a whole, though it remains to be seen whether the whole system benefits can be realised in practice.

20. Primary responsibility for securing value for money for the resources entrusted to public bodies rests with their management. Where such a body is contemplating expenditure intended to benefit other bodies in providing public services, it should
- make an informed judgement on whether expenditure can be justified in terms of the benefits it generates for the achievement of the body's strategic policy objectives; that the benefits and risks have been properly identified and evaluated; and that sound arrangements are proposed for the effective management of the programme or project;
 - ensure that there is a clear framework of measures to show whether expenditure by a body represents value for money, including, where appropriate, intended benefits to other bodies.
21. The Accounting Officer Memorandum may need to be clarified on the need for departments to take account of benefits as well as the costs accruing elsewhere when assessing the value for money of a proposed course of action. In examining the value for money actually achieved the auditor should then seek to take account of wider costs and benefits. In order to take such account of benefits and costs that fall beyond organisational boundaries auditors may require extended powers of access. Where possible they should rely on each other's work (see paragraphs 35 to 47).
22. Auditors already look for benefits and costs beyond organisational boundaries where relevant. For instance, the National Audit Office has examined the impact of the work of regulators on suppliers and public utilities and the purchasers of their services, and has considered the work of the Forensic Science Service in the context of its contribution to the Criminal Justice System. Similarly, the Audit Commission has undertaken an

increasing number of national value for money studies that cut across organisational boundaries, including those on continuing care, youth justice, community safety and rehabilitation and remedial services and mental services for older people.

PERFORMANCE MEASUREMENT

23. A central thrust of Modernising Government is to place more emphasis on what taxpayers get for their money through focusing on the achievement of outcomes as well as outputs. Programmes may be delivered by different agencies, in different ways, using a variety of processes, so performance measures are crucial to evaluating the success of these programmes. The Single Regeneration Budget and the New Deal for Communities are good examples of this.
24. Public auditors will sometimes need to form a view on whether the outcomes used to justify the new regimes can be adequately measured. However, there may be difficulties in doing so if relevant and reliable indicators are not available to assess the success of initiatives, and it may not therefore be easy to assess whether intended outcomes have been achieved. The Government's National Childcare Strategy illustrates the importance, and difficulty, of measuring intended outcomes. Government and auditors should consider further the part auditors should play in devising such performance measures and validating the reported results.
25. Public sector management are responsible for demonstrating that they have achieved value for money. An increasingly important task for auditors will be to assess the outputs, and where possible, outcomes achieved by public bodies in delivering Modernising Government initiatives. Auditors will be better able to focus on outputs and outcomes if public sector management ensure that the outputs and outcomes expected from the programme are clearly defined, and that arrangements are put in place at the start of initiatives to measure achievement.
26. The Financial Issues Advisory Group, which prepared guidance on the principles of the Scottish Parliament's financial procedures, noted in their final report that there was an issue concerning the extent of the auditor's remit in relation to the audit of bodies' performance.⁴ The Group believed that the auditor's role, for example in relation to value for money studies, should include validation of output and performance indicators, though not their selection. However, the Group believed that auditors should be entitled to comment on whether the indicators that have been set are appropriate and complete

⁴ Final Report of the Financial Issues Advisory Group, paragraph 6.17.

in relation to policy objectives. The public audit agencies think that they should be entitled to report on performance indicators within the context of financial audit, where indicators are recorded, and value for money work.

27. In considering the arrangements for measuring performance and the need for auditors to engage with this process, there is a difference in practice between central and local government:
- Under the Audit Commission Act 1998, the Audit Commission is responsible for prescribing performance indicators to be published by local authorities. The role of appointed auditors in relation to published performance information is to satisfy themselves that the necessary arrangements have been put in place by the audited body to collect, record and publish the specified information. Under the “Best Value” regime, local authorities will be expected to identify and set their own local measures and indicators and report annually performance against them. Both nationally prescribed and locally determined measures and indicators are subject to audit. [Similar arrangements apply in Scotland.]
 - In central government, departments, agencies and other bodies are responsible for establishing measures of performance within regimes established by Government. Public auditors do not generally validate performance against targets as part of the audit of financial statements, but may examine performance in relation to such targets in value for money work.
28. Currently there are no generally agreed professional standards governing the reporting and validation of performance data. However, the Public Sector Sub-Committee of the Auditing Practices Board is developing guidance on the validation of performance information by auditors. The initial thinking is that validation should follow a “twin track” approach, focusing on relevance and accuracy. Bodies will need to ensure that there are relevant and reliable measures of the performance of joint entities and new programmes, even where there is no external requirement to do so.
29. Developing good measures of performance in terms of outputs and outcomes, will often be difficult, especially given the novelty and innovativeness of the initiatives. Whilst many outcome targets will take some years to achieve, auditors as well as management need to be able to assess performance in the shorter term. This means that public sector management should establish performance measures which give some indication of progress against the ultimate intended outcomes. Public auditors will aim to contribute

their substantial experience across government by helping with the development of such measures.

LEGALITY OF EXPENDITURE AND MAINTENANCE OF FINANCIAL DISCIPLINE

30. Public sector management should establish effective frameworks of financial control and the proper conduct of public business and ensure that proper financial disciplines are maintained. In central government, the National Audit Office and Northern Ireland Audit Office are required by statute to check that there is statutory authority for expenditure and that relevant Treasury authorities have been complied with. They are also concerned that public bodies have effective systems of financial control and may report to Parliament where there are significant weaknesses.
31. In local government and the National Health Service, the Audit Commission's Code of Audit Practice requires appointed auditors to give an independent assessment of the adequacy of the audited body's arrangements for ensuring the legality of transactions that might have a financial consequence. In discharging these audit objectives, auditors are expected to evaluate significant financial systems and associated internal controls, both for giving an opinion on the statement of accounts and report to the audited body on the adequacy of such controls. They also have a role in reviewing the adequacy of measures taken by audited bodies to prevent the incidence of fraud and corruption.
32. Public sector management needs to make sure that an adequate legal base exists for new ways of delivering services and that arrangements are in place for the maintenance of financial discipline. It would often be sensible for them to consult their auditors in good time. Auditors will be able to provide advice as to how potential problems can be overcome and will need to be satisfied that joined-up activities meet these requirements. The Government Offices for the Regions provide a good example of how this approach might work (see box 7).

Box 7: Government Offices for the Regions

Under the arrangements for Government Offices for the Regions, departments are ultimately responsible for the financial management of their own departmental expenditure. Regional Accountable Officers have a similarly clear responsibility for maintaining financial discipline over the departmental funds allocated to them. A Management Board allows departments to oversee the effective financial operation of Government Offices. Each Government Office must produce reports of expenditure against budget and explain variations to the Board. Departments provide guidance on good financial management. Departmental internal auditors are responsible for overseeing financial and management information systems in the Government Offices.

33. Public sector management may find it useful to refer to the Code of Guidance on Funding External Bodies and Following the Public Pound, prepared jointly by the Accounts Commission and the Convention of Scottish Local Authorities. The Guidance recommends self-regulation by the bodies supplying the funds and monitoring through the external audit process.
34. The following considerations apply:
- Modernising Government initiatives, such as the New Deal for Communities, may lead to Departmental funds being given to other bodies, nationally or locally, and from the public or private sector. Such expenditure will need to comply with all relevant provisions within authorising legislation, which may be specific authorising legislation or for the first year the annual Appropriation Act authorising the expenditure. There is a convention that continuing expenditure programmes should normally rest on specific statutory authority in addition to the Appropriation Act. Furthermore, the expenditure will need to fall within the statutory description of the Department's activities in the relevant Appropriation Act.
 - Public sector management also need to ensure that the bodies receiving funding under Modernising Government initiatives have the legislative powers to spend it in the way intended, in order to avoid such expenditure being irregular or ultra vires.
 - Modernising Government is likely to lead to the creation of new types of bodies, or significant changes in the operation of existing bodies. Public sector management will need to ensure that proper financial disciplines are maintained in any Modernising Government development through an appropriate system of internal controls, to avoid any lowering of standards and impropriety. Auditors will be able to offer advice and good practice on financial disciplines to allow proper standards to be maintained.

- Many new initiatives under Modernising Government are likely to involve the establishment of new bodies or budget centres of a relatively small size. When considering new ways of delivering services and managing the risks appropriately, public sector management should take into account the difficulties there may be in attracting staff with the expertise in applying proper financial disciplines.

CO-OPERATIVE WORKING

35. As the Modernising Government initiative involves an increasing number of public and private bodies working together, it is likely to increase the occasions where public services are subject to audit by different auditors from public and private sectors with varying remits. This gives rise to issues such as how auditors of different elements of expenditure can co-operate effectively (eg through formal reliance on the work of others or joint teams), where these elements are pooled or disaggregated to different types of service provider; and what the costs of any collaboration will be. Consideration of how public auditors can work together to minimise the burden on audited bodies is covered in more detail in the paper being prepared by the Public Audit Forum Working Group on "What Public Sector Bodies can Expect from their Auditors".
36. Where more than one auditor is involved in the audit of joined-up activities, the different auditors will aim to work together - in joined-up audit - to ensure that audit is as focused and as cost-effective as possible.
37. Auditors will need to discharge their statutory responsibilities for each funding stream regardless of any aggregation of different funding streams that may occur under Modernising Government. As noted in paragraph 12 above, this may require public bodies to provide for such access rights in the arrangements they make with each other and with organisations in the private and voluntary sectors. As indicated in the Auditing Practices Board's Practice Note 10, in order to examine the regularity of expenditure, public auditors may sometimes require direct access to bodies receiving public funding. Similar considerations will apply to examinations of value for money. However, in discharging their specific remits, public auditors will not automatically exercise their own rights of access. They will seek to co-operate with other auditors and use each other's work with a view to minimising any overlap of audit examinations, for example by exchanging evidence or by joint audits.
38. There is a wide range of audit arrangements for bodies delivering public services. The bodies responsible for joined-up services will in some circumstances be funded by a

number of different bodies, cutting across central and local government and the National Health Service, and hence be subject to different audit regimes. In summary, the National Audit Office is responsible for most central government audits. The Audit Commission and the Accounts Commission appoint auditors for local authorities and health bodies. Ministers appoint auditors to a wide range of non-departmental and other public bodies. Some public bodies appoint their own auditors, as do the private, charity and voluntary sector bodies which will be delivering some new programmes such as Surestart. Each of these auditors have their own statutory responsibilities for conducting and reporting on audits, including widely varying responsibilities for value for money.

39. Public auditors, including private sector auditors appointed to audit public bodies, will need to be sensitive to the risk that different audit frameworks might be applied to the various national, local, public and private bodies taking part in the joined-up initiatives. Auditors will need to work together to ensure that differing audit frameworks do not lead to duplication, or to important issues being inadvertently overlooked, because they do not fall within the remit of individual auditors, but are relevant to the picture as a whole (Box 8). For instance, in the absence of any universally accepted standards on the audit of propriety and corporate governance, different auditors in the public sector may examine such issues to different extents and in different ways, depending on their role and remit.
40. The Public Audit Forum encourages co-operation and consistency of approach with a view to enabling auditors to make greater use of each other's work. The Forum has already published the three principles of public audit (on independence, the wide scope of public audit and external reporting). The Modernising Government agenda could be assisted if these principles were promoted more widely to a greater range of public bodies.

Box 8: Addressing issues that might otherwise be overlooked

The Internal Audit Services of the Department for Education and Employment, the Department of the Environment, Transport and the Regions and the Department of Trade and Industry are together undertaking a pilot review of projects in the Merseyside area which are funded from multiple sources. Although each Department has arrangements for auditing its own initiatives which are delivered by these projects, bringing together auditors to establish the total funding of a project and outcomes at the same point in time provides a more complete picture. One of the objectives of this pilot review is to identify whether different funding sources are being used for similar purposes and the overall value for money. Because of its joint nature the review may also identify issues for a Department which arise because of a project's involvement in another Department's initiative. Findings will be reported back to each Department.

Financial Audit

41. There is considerable scope for co-operative working on the audit of financial statements, where there are common professional audit standards and well established guidance on the use of internal audit work and the relationships between principal auditors and other auditors⁵. The way in which this guidance might be applied to public audit is being considered by the Public Audit Forum working group on "What Public Sector Bodies can Expect from their Auditors". The following considerations apply:
- There may be circumstances where auditors should be able to give sufficient assurances to other auditors to remove the need for more than one set of auditors to undertake routine audits at any body. In practice this works well already, for instance in the audit of Housing Benefit (see Box 2).
 - In some cases more than one national audit agency might need access to a pooled budget-holder and they would seek to establish arrangements whereby one agency will undertake a common work programme on behalf of both and draw up protocols covering the work.
 - In promoting co-operative working between auditors the question of materiality in planning and carrying out audit work on a particular body will apply. In practice this could mean that payments that might be considered material to a joint entity would be immaterial in the context of the financial statements of the participating bodies and therefore would not be covered by the audit of those bodies other than at the highest level, for example of legality of the financial control environment. Audited bodies will need to be aware of the possible limitations in coverage and take steps

⁵ Statements of Auditing Standards 500 and 510.

to ensure that this does not increase the risk of significant problems going undetected.

Value for money

42. There is also scope for co-operation on value for money examinations, even given the varying remits of public auditors. The remit of auditors appointed by Ministers and internal audit is set by the appointing bodies. The National Audit Office examines the value for money achieved at the national level with a view to concluding on the scope for improvement in future; and the Audit Commission through its national value for money studies aims to identify opportunities for improving the quality of services or reducing costs, which are then followed up in detail through local audits by its appointed auditors.
43. The Single Regeneration Budget illustrates how different audit bodies can successfully work together. The National Audit Office is undertaking a national value for money examination of English Partnerships, a key sub-programme within the initiative, at the same time as the Audit Commission reviews performance by local authorities, and Government Offices for the Regions' internal auditors review the performance of the Training and Enterprise Councils.
44. There are already many examples of co-operation, of which there is room to include only a few in this paper. Box 2 above, on the examination of Housing Benefit, gives an example of co-operation between the national audit agencies. Other examples include: the joint examination by the National Audit Office and the Audit Service of the Higher Education Funding Council for Wales of issues of governance and the management of overseas courses at Swansea Institute of Higher Education; joint working between the Audit Commission and the Social Services Inspectorate on inspections of local authority social services departments (Box 9 below); and joint working between the Accounts Commission and Her Majesty's Inspectorate of Constabulary (Box 10 below).

Box 9: Joint working between the Audit Commission and the Social Services Inspectorate

The Audit Commission and the Department of Health’s Social Services Inspectorate are jointly sponsoring reviews of around 20 local authority social services departments each year, and will eventually review every social services authority in England. The joint reviews aim to:

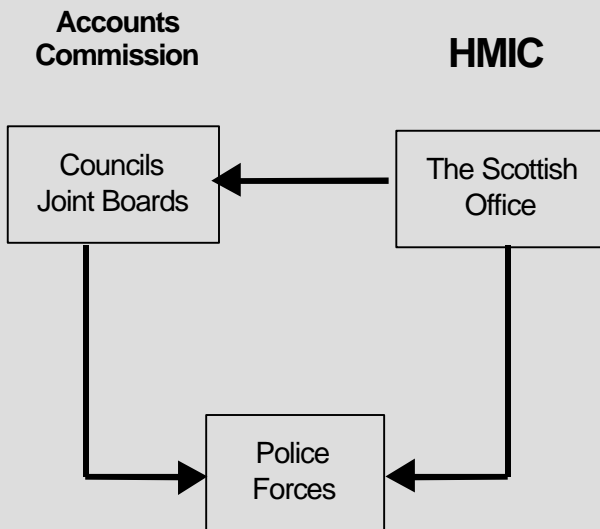
- improve the quality of services for users and carers,
- encourage the spread of best practice, and
- ensure value for money.

The reviews provide an independent assessment of how well the public is being served by social services locally, identifying what authorities do well, and highlighting areas that could be improved.

Box 10: Joint working between the Accounts Commission and Her Majesty’s Inspectorate of Constabulary

The Accounts Commission and Her Majesty’s Inspectorate of Constabulary have different statutory audit and inspection responsibilities and their joint working approach to a national value for money study has enabled them to paint the complete picture of police financial management in Scotland.

A joint study of financial management in the police service



Their joint report “Credit to the force” identified that forces in Scotland are at various stages in their implementation of devolved resource management. The report provides examples of good practice found during the study that will assist forces to implement the recommendations successfully. The report also recommended that the Scottish Office should review the financial framework for policing.

The local auditors and inspectors need to remain aware of the progress being made by each force, and the Accounts Commission and Her Majesty’s Inspectorate of Constabulary are co-ordinating arrangements to avoid any duplication of enquiry of forces.

45. The Modernising Government initiative is likely to increase the scope for co-operative working in examining value for money, to which the following considerations apply:

- Co-operative working between the national audit agencies is most likely to take the form of joint examinations which can help deliver a more rounded approach whilst reflecting the agencies' differing reporting responsibilities and reducing the burden on audited bodies.
- As the body responsible for appointing auditors to local government and National Health Service bodies, the Audit Commission could in effect impose joined-up auditing through the exercise of its purchaser role (see Box 11). Thus, for example, it can appoint a single audit supplier to audit all those local bodies that are involved in a "joint entity" or working arrangement, for instance all local participants in a Health Action Zone. This would ensure that all of the joint entity's income streams (expenditure streams in the accounts of the participating bodies) are subject to audit by the same supplier. However, the appointed auditor would have no jurisdiction in relation to the accounts of the joint entity itself and legal restrictions on the disclosure by an auditor of information relating to a particular audited body would still apply, unless the body to which the information relates gives its specific consent.

Box 11: Auditing across local authority and the National Health Service boundaries

The Audit Commission is considering the approach to be adopted for two value for money studies, due in 1999/2000, which cut across the boundaries between local authority Social Services Departments and the National Health Service, on rehabilitation and remedial services, and mental health services for older people. The Commission is considering whether an individual audit supplier should be appointed to carry out the local value for money audits arising from these two studies at each of the several different bodies involved. Such appointments would be quite separate from, and run alongside, existing appointments for all other aspects of the local audit.

- The Commission can encourage local co-operation between its auditors on particular aspects of an audit, for example a cross-cutting value for money study. Such an approach can either involve audit suppliers scheduling their audits separately, but liaising on key messages or audit suppliers scheduling their audits together, with auditors from separate suppliers working on a joint basis in a single

team. This option has been adopted for the current local audit of the value for money study on Community Safety and the results are being monitored.

46. There are, however, statutory and organisational constraints on joined-up audit outside the control of the National Audit Agencies. One key constraint is that the Agencies are granted access to bodies not funding flows. Some flexibility may be required in granting rights of access to the Audit Agencies when there is a joint examination of programmes funded from different sources so as to permit joined-up audit. Whilst the National Audit Office can ensure that its auditors co-operate as appropriate in auditing joined-up services, it has no locus over the Ministerially appointed auditors of central government bodies which may need to be persuaded to work differently. Similarly, whilst the Audit Commission can give guidance to its appointed auditors, and in some cases require them to work in a particular way, its ability to do so in practice is constrained by:
- the statutory framework (eg Section 49 of the Audit Commission Act 1998 which restricts the disclosure of information about audited bodies);
 - professional auditing standards – the Commission expects its appointed auditors to comply with professional auditing standards; the corollary is that in carrying out work for the Commission, they should not be expected to ‘go beyond’ what they would normally be expected to do under such standards;
 - cost – any additional work over and above that currently undertaken will have to be paid for, by the audited bodies.
47. These are issues which Government will need to address, in some cases through legislation.

Past publications of the Public Audit Forum include:

The Principles of Public Audit – a statement by the Public Audit Forum (October 1998)

The Service which Auditees can Expect from Public Auditors – a consultation document (October 1998)

This report, past publications and other information about the Public Audit Forum, are available on its web site at www.public-audit-forum.gov.uk.

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