

**Commissioners present:**

Michael O'Higgins (Chairman)  
Steve Bundred (Chief Executive)  
Bharat Shah (Deputy Chairman)  
Lord Adebowale  
Jim Coulter  
Sheila Drew Smith  
Cllr. Stephen Houghton  
Cllr. Peter Jones  
Sir Thomas Legg (for part)  
Dame Denise Platt  
Brian Pomeroy (for part)  
Dr Raj Rajagopal  
Professor Peter Smith  
Jenny Watson

**Staff in attendance:**

Mike Barnes (for part)  
Paul Coombs (for part)  
Gareth Davies  
Tracey Dennison  
Martin Evans  
Jenny Grey (for part)  
Roger Hamilton  
Ian Hickman (for part)  
Julie Hope  
Andy McKeon  
Siobhan O'Donoghue (minutes)  
Michael Scott  
Dave Stewart  
Peter Wilkinson

**Welcome, Apologies and Announcements**

1. The Chairman welcomed the Board to the meeting and the following announcements were made:
  - a. The Chairman welcomed Commissioner Jenny Watson to her first meeting. Michael Scott, RD Central Region was also welcomed to the meeting.
  - b. Apologies had been received from Commissioners Dr Jennifer Dixon and Cllr. Chris White.
  - c. The Chairman and Chief Executive thanked those Commissioners who had attended the recent National Managers' Conference for their contributions. The attendance of Board Members had been greatly appreciated by staff and feedback had been positive.
  - d. The Local Government Minister, John Healey, had accepted an invitation to attend the next Board meeting on 13 December; and the Secretary of State, Hazel Blears had accepted an invitation to attend the Board dinner on 12 March 2008.
  - e. Dame Denise Platt declared an interest in item CP 83-07 - Joint Inspectorate Consultation on CAA, as the Chair of the Commission for Social Care Inspection. Cllr. Peter Jones declared an interest in items CP 82-07 - Audit and Inspection Fee Scales; and CP 83-07 – Joint Inspectorate Consultation on CAA, as leader of East Sussex County Council. However, it was not deemed necessary for either Dame Denise Platt or Cllr. Peter Jones to leave the room for the duration of these items, or to refrain from participation in the discussions.

**Minutes of the last Meeting and Away day – 13 and 14 September 2007**

2. The minutes of the 253<sup>rd</sup> Board Meeting and Away day were approved as a correct record.

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| <ol style="list-style-type: none"><li>3. <b>The Board approved the minutes of the last Meeting and Away day as a correct record.</b></li></ol> |
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4. Further to the updates in his report, the Chief Executive said that he had written to the Chief Fire Officer at Warwickshire Fire and Rescue Service on behalf of the Commission, to express sadness and condolences over the recent deaths of four fire-fighters tackling the Atherstone-on-Stour Warehouse fire. The Chief Executive also drew attention to the recent Queen's speech which had included the announcement of the new housing, and health and social care regulators.
5. Meetings with Government Ministers and Others: It had become clear from the recent meetings with the Local Government Minister and the Secretary of State that they had different emphases in their priorities and interests, and therefore it would be necessary to remain relevant to both. The Secretary of State was focused on the engagement and empowerment agenda, and the Local Government Minister had expressed interest in economic and development and regeneration: the Commission had agreed to consider a piece of research around this subject, focusing on former mining communities and mill towns. It was suggested that the housing market renewal programmes might be an accessible way to approach this work. **The Commission had also received a request from David Rossington, Director, Local Democracy at CLG, to develop a think piece on how regulation might benefit community engagement.**
6. Audit of Local Authority Companies: The Chief Executive briefed the Board on the background to the issue of auditing local authority controlled companies, which dated back to Lord Sharman's 2001 report on audit and accountability for central government. There was still no statutory provision for the public audit of such bodies, despite previous lobbying. Ministers had acknowledged that this was an outstanding issue and it was hoped that it could be addressed shortly, possibly through a handout Private Member's Bill.
7. Use of Information Study: This study was expected to be published over the coming weeks. Publication had been delayed to ensure that the study was appropriately cross-referenced to the complementary joint NAO and Office for National Statistics report on improving resource management.
8. Future of Housing Regulation: In light of the Housing Minister's announcement on the future of housing regulation and the establishment of a new regulator, there was the opportunity for a lessons-learned exercise.

9. <b>The Board noted the Report of the Chief Executive.</b>
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## Medium Term Financial Plan 2008/09 to 2010/11

CP 80-07

10. The MD, Corporate Services introduced the report setting out the corporate financial targets and assumptions to deliver a break-even position each year during 2008/09 to 2010/11. The financial plan reflected the proposals for fee scales (discussed elsewhere on this agenda in CP 82-07) and the organisation's commitment to pursuing efficiency targets in line with AIBs. The Board noted the assumptions and sensitivities set out in the report. The following points were raised in discussion:
  - a. Despite the announcement on the future of housing regulation, the housing programme remained cost neutral as the impact on the Commission was still not clear.
  - b. The 5 and 6 per cent staff cost savings set out in Table 1 were not further increases, but had not been set out explicitly in previous financial plans.

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- c. It was suggested that a back to basics look at the finances of the organisation might be beneficial, rather than trying to squeeze further savings out of the current position.
  - d. Versions of the financial plan that smoothed the individual increases had not been considered in favour of a version that smoothed the overall figures.
  - e. In terms of reputation, the worst-case scenario would be if our costs increased; staff pay increased; but there continued to be an issue with the consistency of audit quality.
  - f. Had we looked at our own value for money? For example, what would the Commission be able, or prepared to sacrifice, in order to reduce the levels of fee increases?
11. Cllr. Peter Jones declared a formal objection to the proposed fee levels as set out in the financial plan, and therefore did not approve any of the recommendations.

**12. The Board noted the paper, subject to the outcome of the fees consultation including possible re-profiling; and subject to the outcome of the pay settlement.**

### **Pay Award 2008/09 to 2010/11**

**CP 81-07**

13. The MD, Human Resources introduced the report that responded to the Board's request at its February 2007 meeting to consider the 2008/09 pay award at an early stage. A steer on the level of pay award was sought, and the Board considered the following issues in its discussion: **[Section 36(2)(c)]**

**14. The Board noted the report and agreed that negotiations on a three-year settlement should continue, based around:**

- a. **a circa 2.75 per cent increase, in line with local authorities; and**
- b. **pay envelopes (including pension benefits); and the option of deferring the settlement date.**

### **Fee Scales 2008/09 to 2010/11**

**CP 82-07**

15. The MD, Audit presented proposals for increases in fee scales for 2008/09 and the two years beyond, and sought the Board's agreement on what level of increases should be consulted on. The increases reflected cost pressures faced by the Commission (detailed elsewhere on this agenda in CP 80-07) and a number of volume changes. The drivers of some of the volume increases were beyond the Commission's control, for example, the statutory duty to comply with IFRS accounting standards and changes to professional standards. However, other volume drivers such as the scope of Use of Resources (UoR) assessments; the extent of data quality work; and the treatment of local government pension funds, could be influenced by Commission policy choices. There was a difficult balance to strike between affordability and acceptability. The Board considered the following issues during its discussion of the report:
- a. Although the consequences for individual authorities were difficult to predict, the proposals for increasing the scales of fees would be viewed against a backdrop of real pressure, and the ability of authorities to reduce their costs to address these pressures was finite: we should expect resistance from local authorities.
  - b. The first question that we would be asked was 'why is there an increase?' and so clear communication would be vital, particularly in explaining the increased activity

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and expenditure which would most likely be perceived as more audit. Also, how would these increases relate to better services, and better governance?

- c. **The possibility of a smoothing exercise over the three year period that could be negotiated on an individual basis with AIBs should be explored.** Although this might be more difficult to communicate clearly, it would show willing and help deliver the overall message. Giving AIBs the option to smooth their increases would also tie-in with their three-year financial settlements.
  - d. We were setting the fees as a regulator, not as auditors, and we should also be mindful that the firms would levy these charges, too; and that the basis of the recent contracts with the firms was their ability to recover their costs. Setting fees at what AIBs would consider a more acceptable level would create contractual and relationship issues with the firms.
  - e. The consultation must explain very clearly where the increases were coming from, and demonstrate where the Commission was also accepting its own advice.
  - f. The Commission should consider taking a more in-depth look at its strategic costs. Demonstrating our own efficiencies, even around token aspects, would be appreciated.
  - g. As sustainability issues and the related KLOE were still relatively new territory, was there any room for manoeuvre here? Also, was the amount of time that had been allocated for VfM investigations really necessary?
  - h. It would be better if the consultation demonstrated what choices had been made, and where choices were still available. The Board agreed that **the table setting out the average audit fees and increases over 2007/08 to 2010/11 (Table 2) should show a more stepped picture of the various increases and options.** This would help to show that some of the charges were decreasing, but that some were also unavoidable.
16. The consultation document had to be published in November 2007, but a final decision on levels was not necessary until March 2008.
17. Cllr Peter Jones declared a formal objection to the proposed fee levels for consultation, as set out in the report, and did not approve the recommendations.

18. **Subject to the comments above, the Board delegated authority for the Chief Executive to approve the consultation document setting out the proposed Work Programme and Scales of Fees 2008/09 to 2010/11, for publication at the end of November 2007.**

## **Joint Inspectorate Consultation on Comprehensive Area Assessment**

**CP 83-07**

19. The MD, Local Government presented the consultation paper on Comprehensive Area Assessment (CAA) prepared jointly with our partner inspectorates. It did not set out a definitive approach to CAA but fleshed out the proposals. Feedback from individual government departments on early drafts had been generally supportive, although there had been some issues with the Department of Health (DH) and Home Office (HO) that needed to be addressed, and discussions were ongoing at ministerial level.
20. The consultation would demonstrate a move away from the detailed and prescriptive KLOE assessments of the past, and demonstrate that CAA was about managing local priorities, locally. It would also have to address the need for a cultural shift, both internally and across the sector. **[Section 36(2)(b)(ii)]**

21. **Subject to the comments above, the Board:**
- a. **delegated authority for the Chief Executive and Chairman to approve the joint consultation document; and**
  - b. **requested a report on the public consultation process and its results.**

**Use of Resources 2008/09**

**CP 84-07**

22. The MD, Audit introduced the consultation document on the proposed approach to Use of Resources (UoR) judgements for 2008/09. This broader scope of UoR would result in a single scored judgement on bodies' use of resources, and would help to drive improvements in financial reporting. Performance would be judged across three themes and would focus on outcomes more than processes. Under the new proposals, auditors would adopt a more judgement-based approach measuring against high level descriptors rather than detailed criteria.
23. Key stakeholders had been consulted during the development of the framework with mixed responses: for example, HM Treasury welcomed the proposals but would prefer two rather than three themes; and the Department of Health had expressed anxiety at any broader definition of resources beyond finances.
24. The Board considered the draft consultation. There was some concern about the differences in ratings between the Commission's assessment of PCTs, and Monitor's assessment of Foundation Trusts. There was also concern that, as UoR would be the only scored element of CAA, the score would lead to unofficial league tables; and also that smaller firms would not have the depth of experience and expertise to carry out the UoR assessment effectively. The MD Audit assured the Board that there would be significant investment in training to ensure that judgements would be exercised consistently. The proposed approach would be trialled from December 2007, with full implementation from 2008/09.

25. **The Board approved the consultation for Use of Resources judgements for 2008/09.**

**NHS Modernisation: Invest to Improve – Key Messages**

**CP 85-07**

26. The MD, Health circulated slides to accompany the presentation and report on the key messages emerging from the joint Audit Commission / Healthcare Commission study *NHS Modernisation: Invest to Improve*. The study had looked at the collective impact of the Department of Health's (DH) system reform programme on the NHS since 2003/04. Methodologically, the study had been quite difficult as other incentives and issues across the NHS had been happening simultaneously, and the approach across the various health economies had been quite different. **[Section 36(2)(b)(ii)]**
27. **[Section 36(2)(b)(ii)]**

28. **The Board:**
- a. **considered and commented on the key messages and findings from the study, as detailed above; and**
  - b. **agreed that clearance of the final report should rest with the Chairman and Chief Executive.**

## Health Studies Programme

CP 86-07

29. The MD, Health introduced the report and invited the Board to comment on the suggested health studies to be undertaken in 2008/09, as set out in the paper. As the Commission's study remit in the NHS was limited to financial management, studies were often produced jointly with other bodies such as the NAO and the Healthcare Commission, and this would also be the case with the new regulator, the Care Quality Commission. The Board noted the proposed studies and suggested that **a study on the financial implications of health inequalities would be worthwhile.**

30. **The Board:**
- a. **commented on and suggested additions to the Health Studies consultation, as detailed above; and**
  - b. **approved the consultation document at Appendix 1 for issue.**

## Quarter 2 Performance Report

CP 87-07

31. The MD, Corporate Services presented the report that summarised performance and progress against strategic objectives during the period July to September 2007. Despite the positive year to date position, a forecast outturn deficit of £2m was anticipated, in part due to under-budgeting for contracts, and also the reconfiguration of some IT support systems. The Chairman requested that **the periodical year to date forecasts be presented alongside the final end of year position for comparison.**

32. **The Board noted:**
- a. **the overall performance summarised in the balanced scorecard;**
  - b. **the achievements in the quarter; the Management accounts for September 2007;**
  - c. **progress against the Strategic Plan activities; and**
  - d. **the publications timeline.**

## Audit Issues

CP 88-07

33. The MD, Audit presented the report which sought the Board's agreement on various operational issues. The Board also noted the analysis of single tier and county councils where audit appointments had never been rotated (in the history of the Commission), as set out in Appendix 2 of the report. Longer-term packages of audit rotation would be considered when the current audit appointments were due for renewal. **Commissioners sought assurance that there was no correlation between an AIB's performance and the length of rotation of their appointed auditor.**

## 34. [Section 33]

35. Other matters to note included:

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- a. **[Section 33]**
- b. The Read and Cooksey Awards 2007 had been presented to recipients at the recent National Managers' Conference. However, the judging panel had commented that with the exception of the winners, the submissions had lacked evidence of innovation and originality and had not fully demonstrated that they had achieved a high level of impact. The panel's comments had been noted and would be taken forward.
- c. **[Section 33]**

### 36. The Board:

- a. **approved the appointment of Les Kidner as the joint appointed auditor at Hounslow LBC for 2007/08, with specific responsibility for the auditor's functions under s5(1)(e) of the Audit Commission Act 1998;**
- b. **approved the appointment of Chris Westwood as an appointed auditor at Medway Council;**
- c. **approved the appointment of Debbie Hanson as the appointed auditor at Flitwick Town Council;**
- d. **approved the appointment of Grant Thornton UK LLP as the appointed auditor to South Worcestershire Shared Services Partnership Joint Committee;**
- e. **approved the changes in appointed auditors, as set out in Appendix 1;**
- f. **noted the results of the analysis of long-standing audit appointments during the recent and proposed series of rotations of audit appointments;**
- g. **noted the Award of the Read and Cooksey awards 2007 and the comments of the judging panel; and**
- h. **noted the other issues set out in section 4 of the report.**

## Audit Practice Annual Quality Report

CP 89-07

37. The MD, Audit presented the draft of the Audit Commission audit practice's annual quality report (AQR), which aligned the Commission with the requirement for firms to prepare an annual transparency report. The production and dissemination of the AQR was important to the *Promoting Audit Quality* programme, and in reminding others of our performance and quality commitment. The arrival of the Audit Inspection Unit in early 2008 would also demonstrate our openness to independent scrutiny.
38. The AQR sought to strike a balance between an honest assessment and highlighting areas for improvement. Although the Commission's audit practice had undoubtedly improved, it was fair to say that it had not kept up with the benchmark of leading practice. It was proposed that a copy of the report would be published on the Audit Commission website and a link would be sent to our clients, including FTs.

39. **The Board approved the draft audit practice annual quality report for publication.**

## Minutes of Recent Meetings

CP 90-07, CP 91-07 and CP 92-07

40. The Board received the minutes of the 25 July 2007 Housing and Regeneration Advisory Group; the minutes of the 4 September 2007 NHS Financial Management Advisory Group; and the 26 July 2007 Audit Committee meeting, without comment.

41. **The Board noted the minutes of recent meetings without comment.**

**Information Bulletin & Chairman's Speaking Engagements CP 93-07 and CP 94-07**

42. The Board noted the Chairman's Speaking Engagements and the Information Bulletin without comment.

43. **The Board received the Information Bulletin and the Chairman's speaking engagements for information.**

**Any Other Business**

**Verbal**

44. There were no additional items of business.

*Date of Next Meeting*

45. The next Board Meeting would be held at 9.30am on Thursday 13 December 2007, in the Boardroom, Millbank Tower, and would be preceded, on Wednesday 12 December 2007 by a Board Dinner at the City Inn, Westminster.

**Siobhan O'Donoghue  
November 2007**