

Future arrangements for Audit

Purpose of report

For discussion and direction.

Summary

This report advises members about the publication of the draft Local Audit Bill and arrangements for further consultation on the proposals.

Recommendation

The Board is asked to note the publication of the draft Bill, offer any initial comments on the issues raised in paragraphs 10.1 and 10.2 and authorise the lead members to approve the LGA's response in the light of comments from member authorities.

Action

Develop draft response in the light of existing policy, sector views and members' comments and submit to lead members for approval.

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Future arrangements for Audit

Background

1. The Government has published a draft Bill on the future of local public audit:
<http://www.communities.gov.uk/publications/localgovernment/draftlocalauditbill>.
2. The draft Bill has been published for consultation and pre-legislative scrutiny.
3. This draft legislation provides the means to implement the plans announced in August 2010 by the Rt Hon Eric Pickles MP, Secretary of State for Communities and Local Government, to disband the Audit Commission and refocus audit on helping the public to hold councils and local public bodies to account for spending decisions.
4. In summary the draft Bill provides for:
 - 4.1 The repeal of legislation setting up the Audit Commission (the Audit Commission Act 1998) and provision to transfer assets, liabilities and continuing functions to other bodies.
 - 4.2 A requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel.
 - 4.3 The creation of a new regulatory framework for local public audit, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local public audit services.
 - 4.4 The transfer of responsibility for setting the high level Code of Audit Practice to the National Audit Office (NAO).
 - 4.5 Powers for the NAO to undertake studies of thematic value for money issues relating to local government, (including, it appears, an opportunity for the NAO to undertake studies for the purposes of identifying improvements that may be made by all English local authorities) and to access information needed to do so.
 - 4.6 Powers for the Secretary of State to be able to direct a person or persons to undertake an inspection into the effectiveness of a council's corporate governance arrangements – replacing the current ability to direct the Audit Commission.
5. The Department for Communities and Local Government (DCLG) has also published, alongside the Bill, proposals for a more proportionate regime for the audit arrangements for smaller local public bodies including giving smaller bodies the option of having the procurement and appointment of their audit services carried out by a sector-led body, following a proposal from the National

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Association of Local Councils and Society of Local Council Clerks to establish such a body.

6. The Government anticipates total expected savings to the public purse of £650 million over the next five years.
7. The LGA also produced an On the Day briefing for councils. [Read our on-the-day-briefing.](#)
8. Alongside the draft Bill, DCLG has also published a policy overview including a range of further consultation questions. Responses have been invited by 31 August 2012.
9. The proposals in the Draft Bill and issues raised in the consultation reflect many of the issues already rehearsed in the earlier DCLG consultation process, to which the LGA responded and by the Select Committee, to which the LGA gave both written and oral evidence.
10. There are however a couple of issues to draw to members' attention and on which initial comments would be welcomed:
 - 10.1 Powers for the NAO to undertake studies of thematic value for money issues relating to local government also appear to provide an opportunity for the NAO to undertake studies for the purposes of identifying *improvements* that may be made by all English local authorities. We are very concerned to explore this proposed power further in view of the obvious potential to duplicate the sector's own improvement arrangements.
 - 10.2 The draft Bill provides for the Audit Commission's data matching powers to be transferred to the Secretary of State. It is intended the powers would then be delegated to the new operational owner of the National Fraud Initiative (NFI) and a number of options are identified including the National Fraud Authority, Department for Work and Pensions and the Cabinet Office. We are keen that the NFI continues to operate after the Audit Commission is abolished and the initial view – subject to responses from the sector – is that it will be important that the organisation which assumes responsibility for this work has a broad outlook on fraud and is able to operate across the public and private sector.

Timetable and next steps:

31 August: Deadline for responses to the DCLG consultation on the issues raised in the policy narrative.

Autumn: pre-legislative scrutiny.

2013: Bill introduced to Parliament.

2014: Royal Assent subject to parliamentary approval.

2015: The closure of the Audit Commission.

April 2017: This is earliest point at which auditors can be appointed directly by councils.

Financial Implications

11. There are no additional financial implications arising as a result of this report.