

Appendix A – Report to Executive on 12 December 2012

Draft Local Audit Bill

Purpose of report

For discussion and direction.

Summary

This report updates members on the progress of the draft Local Audit Bill and invites members to agree that the LGA should explore options of establishing a sector owned approach to procurement of external audit on behalf of local government in order to minimise costs to the sector.

Recommendation

Members are asked to decide whether the LGA should explore the options of a sector owned approach to procure external audit on behalf of the sector when the current external audit contracts come to an end.

Action

Officers to report back to a further meeting

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Draft Local Audit Bill

Background

1. In July 2012, the Department for Communities and Local Government (DCLG) published a draft Local Audit Bill and accompanying policy narrative raising a number of specific consultation questions on the content of the draft Bill. The draft Bill gives effect to the announcement on 13 August 2010 by Eric Pickles MP, Secretary of State for Communities and Local Government of plans to disband the Audit Commission, allow councils to appoint their own auditors and to refocus audit on helping local people hold councils and local public bodies to account for local spending decisions.
2. In September the House of Commons appointed an ad hoc Committee to conduct pre-legislative scrutiny of the Draft Local Audit Bill. The Committee is chaired by the Rt Hon Mrs Margaret Hodge MP, Chair of the Public Accounts Committee, and its membership includes Clive Betts MP, Chair of the Commons Select Committee on Communities and Local Government.
3. The LGA submitted written evidence to the Committee and on 6 November Carolyn Downs, Chief Executive, gave oral evidence along with Joanna Simons, Chief Executive of Oxfordshire County Council; Stephen Hughes Chief Executive of Birmingham City Council and Steve Parkinson, National Executive Member from the Society of Local Council Clerks.
4. The core issues involved in the proposals around the future of local public audit – and the sector's views on them - have been well rehearsed and are summarised in the LGA's evidence to the ad hoc Committee, attached at **Appendix A**.
5. The current external audit contracts that have been let by the Audit Commission run until the completion of the 2016/17 audits. The Government's legislative timetable suggests that the Audit Bill is likely to be formally introduced in parliament in May/June 2013 with Royal Assent by March 2014. This would then allow for the Audit Commission to close in March 2015. The Government have indicated they will establish an interim body that manages the audit contracts from April 2015 through to 2017.

The issue

6. Over the last few months we have picked up increasing concern within the sector about the potential for audit fees to rise when councils appoint their own auditors. The Commission's recent outsourcing exercise resulted in a 40 per cent reduction in audit fees and the Commission attribute this to their bulk purchasing arrangements and the resulting economies of scale. Some examples of what this has meant in individual authorities is set out below:

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Council	Proposed Fee for 12/13	Final scale fees for 12/13
RB Kensington & Chelsea	£238,950	£159,300
South Holland DC	£87,723	£58,482
Portsmouth City	£297,270	£198,180
Dudley MBC	£267,265	£178,177
Lincolnshire CC	£214,650	£143,100
Sevenoaks DC	£84,962	£56,641

7. Individual appointment is likely to increase audit firms tendering costs and this is likely to be passed on. In addition some councils are concerned that, either by virtue of their size or geographic location, they will become an unattractive proposition for audit firms and that this will also lead to a fee increase.
8. In addition the principle of “independence” in the appointment of auditors is proving a sticking point. On the one hand Government is committed to the proposal that councils should only be able to appoint auditors following consideration of a recommendation from an independent audit panel with a majority of independent members and an independent chair. Councils, on the other hand, are clear that these requirements are unnecessary and impractical. As we have argued the eligibility and regulatory processes under Part 4 of the draft Bill will ensure the professional integrity and independence of auditors and most councils think they will have great difficulties in sourcing appropriately knowledgeable people to serve as independent members of an audit panel.
9. One way forward which would help deal with these two issues would be to explore the establishment of some form of sector-led body to procure audit on behalf of the sector.
10. There are a number of potential advantages. Such a body could:
 - 10.1. overcome the problem that arises under the current proposals about how to maintain the independence of audit and avoid the requirement on all councils to appoint an audit panel;
 - 10.2. have the potential to secure economies of scale in audit procurement and as a result minimise the administrative burden on councils and keep also audit fees down;
 - 10.3. overcome the potential problems councils in remote geographic areas might face in finding and appointing auditors; and

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- 10.4. strengthen sector-led improvement by giving the local government family a direct involvement with auditor appointment and regulation.
11. But there are also likely to be some challenges and significant issues to consider if the proposal was taken forward including:
- 11.1. removing the potential discretion for councils to appoint their own auditors from a free market;
- 11.2. being seen as retaining the remaining elements of the Audit Commission and maintaining an unnecessary body;
- 11.3. to deliver the economies of scale the body would probably need similar statutory powers to those held by the Audit Commission in relation to the appointment of auditors;
- 11.4. whether the body should just cover local government or as in the current case also deal with the appointment of auditors to NHS bodies and the police;
- 11.5. LGA involvement could be perceived by some councils as another step towards the LGA becoming some form of quasi inspectorate – something councils strongly warned against in their responses to us on “Taking the Lead”.
12. Other alternatives to creating a sector-led body could include:
- 12.1. encouraging councils to procure jointly at different spatial levels;
- 12.2. creating a framework contract which councils could then call on;
- 12.3. creating a national Independent Audit Appointment Panel but with councils carrying out their separate procurement process.
13. None of the options in paragraph 12 are likely to have the advantages of economies of scale that a small sector-led body is likely to achieve if it was procuring audit work on behalf of the whole sector.

Conclusion and next steps

14. There would clearly be a range of practical issues to be worked through in any exercise to establish some form of sector-led approach to procure audit on behalf of the sector. As stated above these would include: the statutory basis of the body; the range of functions powers and duties; implications for the appointment of auditors for police and health bodies; funding; and of course understanding whether councils would support the proposal.

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15. Subject to members' views about the principle of establishing a sector-led approach to procure audit on behalf of the sector, officers will undertake detailed exploratory work of the options and report back to members in due course.

Financial Implications

16. There are no significant financial implications arising as a result of this report. Costs associated with exploring the issues identified in this report can be contained within the LGA core budget.