

Local Audit and Accountability Bill

Purpose of report?

For information.

Summary

This report provides an update on the Local Audit and Accountability Bill.

Recommendation

That the Improvement and Innovation Board note the report.

Action

Officers to take forward action as appropriate.

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Local Audit and Accountability Bill

Background

1. The Local Audit and Accountability Bill was published on 10 May 2013. The Bill will introduce a new regime for the auditing of local public bodies, extend the council tax referendum provisions introduced in the Localism Act and enshrine the legal status of the local authority publicity code.
2. The Bill main elements and key proposals in the Bill are as follows:
3. Council tax referendum: The Bill extends the council tax referendum provisions introduced in the Localism Act with the effect that levies from bodies such as Waste Disposal Authorities, Integrated Transport Authorities, Pension Authorities and Internal Drainage Boards must be included in the calculation to establish whether a council is required to hold a council tax referendum.
4. Local authority publicity code: The Code of Recommended Practice on Local Authority Publicity was amended in March 2011 introducing recommended practice on the frequency, content and appearance of local authority newspapers. This included recommending that principal local authorities limit their publication to once a quarter, and parish and town councils limit their newsletters to once a month. The Bill gives the code a legislative underpinning and also provides the Secretary of State with the power to direct a local authority regardless of whether that authority is complying with the code to which these powers relate.
5. A new Audit Regime: The Bill will abolish the Audit Commission and create a framework where councils will have to establish an independent auditor appointment panel in order to be able to appoint their own auditors.
6. The LGA's "On the day" briefing providing further information about each part of the Bill is here.

http://www.local.gov.uk/c/document_library/get_file?uuid=ef265e89-3f59-4e37-85a4-bbf516426c12&groupId=10171
7. The Lord's Report Stage is on 17 July. The Bill will be debated in the House of Commons in the autumn parliamentary session and is scheduled to be passed into law by January 2014.

A new Audit Regime:

8. In terms of the Audit elements of the Bill, on which the Improvement and Innovation Board has a lead, the LGA has two main areas of concern:

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8.1 to find a way of preserving the potential savings that national procurement can deliver compared to local appointment and procurement;

8.2 to ensure that the way in which the Bill describes the NAO's new powers does not lead to the NAO becoming an inspectorate of individual councils.

National procurement

9. At its meeting on 12 December 2012, the LGA Executive agreed that 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 end. The Improvement and Innovation Board also discussed this issue at its meeting on 19 March.
10. This decision was taken in response to increasing concern within the sector about the potential for audit fees to rise when councils appoint their own auditors. In particular, some councils are concerned that, either by virtue of their size or geographical location, they will not be commercially attractive as clients and so will have to pay a premium. Individual appointment will also involve additional procurement costs and is also likely to increase audit firms' tendering costs and this is likely to be passed on to local public bodies.
11. Councils have also been clear that the Government's proposed requirement that councils should only be able to appoint auditors following a recommendation from an independent 'auditor panel' with a majority of independent members and an independent chair is unnecessary and impractical. National procurement would obviate the need for a local panel.
12. The LGA has lobbied Ministers initially with a view to seeking an amendment to the Bill which would create the flexibility for national procurement to continue to be an option on a mandatory basis. This option has been pursued as it is the option that achieves the most significant savings. It has been estimated that national procurement of audit saves the public purse between £205 and £250 million over a five year period when compared against local appointment. However Ministers have indicated that they are not willing to entertain a mandatory option but would be willing to consider an "opt-in" option around national procurement.
13. Accordingly when the Bill reached the Committee stage of the House of Lords, the LGA promoted amendments tabled by Lord Tope (Lib Dem, LGA Vice-President elect) and the Earl of Lytton (Crossbench, LGA Vice-President elect) to allow local public bodies to delegate their auditor appointment function to another body, such as the LGA, under arrangements recognised by the Secretary of State for this purpose, which could then procure audit services on a collective basis.

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14. During debate of the amendment the principle of national procurement was supported by Lord McKenzie of Luton (Labour, Shadow CLG Minister) and Baroness Eaton (Conservative, LGA Vice-President), who highlighted the cost savings.
15. Baroness Hanham, indicated a willingness by the government to consider how the Bill could be amended along these lines. She also confirmed that should a national appointment framework be created as part of the Bill there would be no duty on those councils entering into the exercise to appoint independent auditor panels.
16. We are currently in discussion with DCLG officials about the practicalities and understand that the government will seek to bring forward an amendment when the Bill reaches the Committee stage of the House of Commons in the autumn.

National Audit Office:

17. Under the changes proposed in the Bill the National Audit Office will take on a number of new roles, including responsibility for the Audit Code of Practice and the duty to carry out a number of evaluation studies that cover local government. We have been keen to ensure that the way in which the Bill describes the NAO's new powers does not lead to the NAO becoming involved in improvement activity or an inspectorate of individual councils.
18. Following concerns expressed by members at the last meeting in March the LGA has been successful in ensuring changes such that when the Bill was published the wording did not describe the purpose of the NAO's proposed studies as being concerned with "identifying improvements". Instead the Bill recognises two distinct type of studies: those carried out by NAO to ensure the use of resources provided by a government department to fund councils represents value for money and secondly to provide ".....evaluation, commentary and advice of a general nature.. "
19. In addition the Bill included a provision requiring the NAO, before carrying out an examination, to consult representative associations.
20. In terms of our concern that the NAO should not carry out comparative analysis of individual councils Lord Tope and the Earl of Lytton led on LGA amendments that would preclude the NAO from carrying out inspection for the purpose of providing comparative performance league tables. The amendments also sought to limit the studies the NAO would be able to undertake into local government to those that receive more than 50% of funding centrally (on the basis that where councils received the majority of their funding from local sources then the NAO should not have a remit at all since the NAO's core role is providing assurance to Parliament and holding Government to account over its use of resources). Lord Tope set out the LGA's concerns and the arguments in favour of the amendment.

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21. Responding for the Government Baroness Hanham reassured the House that

“.....it is not the Government's intention to replicate the Audit Commission's programme of studies. The powers are narrower than the Audit Commission's and there will be fewer studies. Although the examinations programme is ultimately a matter for the Comptroller and Auditor-General, Parliament undertakes a full and thorough scrutiny of the National Audit Office's strategy and budget.”

This is a helpful reiteration of the Government's position and intention.