

Audit Transitional Body

Purpose of report

To update members on the decision by Ministers to ask the LGA to lead interim arrangements for public sector audit following the closure of the Audit Commission on 31 March 2015.

Summary

The Local Audit and Accountability Act 2014 amongst other things abolishes the Audit Commission. A number of the Audit Commission's functions have either ceased already or will cease on 31 March 2015. Others will pass to other organisations such as the National Audit Office. In addition, the Act recognised that there would be a need to establish a Transitional Body to manage the existing external audit contracts that are in place and are not due to end until 2017 at the earliest.

Local Government Minister Brandon Lewis announced on 21 March 2014 that the LGA will lead interim arrangements for public sector audit after 2015.

Recommendation

That the Board welcomes the decision by Ministers to ask the LGA to establish the Transitional Body to manage the existing external audit contracts.

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Introduction

1. The Local Audit and Accountability Act 2014, which abolishes the Audit Commission also establishes new arrangements for the auditing of local public bodies.
2. A number of functions currently carried out by the Commission will need to be carried out until full introduction of the new audit appointment arrangements from 2017 at the earliest.
3. The primary function to be performed following closure of the Audit Commission on 31 March 15 and the new arrangements coming into place in 2017 is the management of the Commission's contracts with private sector audit firms for the provision of audit and related services for local bodies.
4. The Audit Commission's contracts cover audit work at over 800 principal bodies including local government, NHS trusts, police bodies and fire authorities as well as c. 10,000 smaller authorities: mainly parishes but also internal drainage boards, joint committees and others and their representative bodies.
5. The contracts are due to expire on completion of the audits of the 2016/17 accounts, unless they are extended to 2020.

Transitional body

6. The functions and activities requiring management during this interim period can be summarised as follows:
 - 6.1 managing the Audit Commission's various centrally procured contracts with private sector audit firms for the provision of audit and related services for principal and smaller bodies as well as support functions associated with 2014-15 audits; and
 - 6.2 other audit-related activities currently undertaken by the Audit Commission.
7. The ten audit contracts for principal bodies and four contracts for small bodies have a combined annual value of £85 million. The intention is for these contracts to be transferred to the designated transitional body in line with the closure of the Audit Commission on 1 April 2015.
8. The transitional body will need to operate certain key statutory functions currently held by the Audit Commission. These broadly relate to the appointment of auditors and terms of appointment (section 3 of the Audit Commission Act 1998), setting scales of

fees and determining variations to scale fees (section 7) and making arrangements for the certification of claims and returns (section 28).

9. The Audit Commission currently undertakes arrangements for certifying claims and returns to local government bodies to government departments (in line with section 28 of the Audit Commission Act 1998).
10. The majority of grant-paying departments or bodies are now working towards making tripartite arrangements with local public bodies and auditors for any continuing certification requirements beyond March 2015. However, there is one exception to this: the Department for Work and Pensions' Housing Benefit count certification. As the implementation of Universal Credit will replace Housing Benefit, any new certification arrangements (tripartite or self-certification) would have to be implemented on a temporary basis. It is therefore proposed that the designated transitional body should undertake this statutory function for Housing Benefit only on a time-limited basis.
11. On 17 January 2014, the LGA were invited to submit a proposal to DCLG to be the transitional body, which we did at the end of January. Our proposal in summary was to set up an independent company to be the transitional body. The company would be limited by guarantee with a board comprising directors having a mix of audit and accountancy experience, experience of working in one or more of the sectors including local government and health. Staff currently working at the Audit Commission carrying out this work would transfer across to the LGA and would benefit from being able to access our back office and wider support services.
12. Our submission emphasised our excellent track record in establishing companies including the Improvement and Development Agency as well as joint companies such as Local Partnerships and Geoplace.
13. In addition, our proposal suggested that we also take on responsibility for the Audit Commission's value for money profiles. The profiles are provided by the Audit Commission to help auditors reach judgements on the extent to which councils have effective value for money arrangements in place. The profiles are similar to LG Inform, the LGA benchmarking tool.
14. The Crown Commercial Service (part of the Cabinet Office) also submitted a proposal to be the Transitional Body.
15. On 21 March, Ministers announced that they were asking the LGA to create the transitional body. They also announced that they were also transferring the value for money profiles to the transitional body.

Implications

16. A transitional programme board with the Audit Commission and DCLG is being set up to take the work forward. Clearly, a company will now need to be established and Board members appointed. Around 14 staff will transfer across via TUPE from the Audit Commission at the end of March 2015.
17. The costs of carrying out the role of the transitional body will be met as they are now through the audit fees. Our submission to DCLG also made clear they we expected the Audit Commission or DCLG to ensure any future financial liabilities are covered. For example, redundancy costs that might arise at the end of the transitional period.
18. Members may recall that the LGA was successful in getting a key amendment to the Local Audit and Accountability Act agreed. The amendment allows for councils to opt-in to a form a national procurement as an alternative to councils individually procuring their own external auditor post 2017. This would also have the advantage that councils would not be required to set up an independent audit appointment panel and save on procurement costs. The Audit Commission have estimated that the saving to the sector overall if councils were to opt in to this option of national procurement could save in the region of £200m over a 5 year period.
19. The success of the LGA being asked to set up the transitional body means that this body could continue beyond 2017 and provide the opportunity for councils to continue to benefit from national procurement and the savings that such an option brings.