

Audit Transitional Body

Purpose of report

To update members on the progress being made and key issues to be addressed in taking forward the Transitional Body to manage the existing public sector external audit contracts when the Audit Commission closes on 31 March 2015.

Summary

The Local Audit and Accountability Act 2014, amongst other things, abolished 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 Local Government Association (LGA) will lead interim arrangements for public sector audit after March 2015.

Recommendation

That the Leadership Board notes the arrangements put in place to establish the transitional body to manage the existing external audit contracts.

Action

Officers to take forward in accordance with Members' decision/s.

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Audit Transitional Body

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 public sector 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 around 10,000 smaller authorities (mainly Parish Councils 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. Provision exists for their extension to 2020. The decision as to whether to do so has not yet been made by Communities and Local Government.
6. A significant amount of data and information is captured and reported as part of the audit process and a good deal of this is held on-line in a number of Value for Money profiles and 'tools'. This is used as the basis of sector-wide studies and reports as well as being available to individual audited bodies for their own use.

Transitional body

7. The functions and activities requiring management during this interim period (April 2015 to completion of 2016/17 audits) can be summarised as follows:
 - 7.1 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
 - 7.2 other audit-related activities currently undertaken by the Audit Commission.
8. 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.

9. The transitional body will need to undertake 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).
10. 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).
11. 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.
12. On 21 March, Ministers announced that they were asking the LGA to create the transitional body. They also announced that they were transferring the Value for Money profiles to the transitional body. It is understood that a key part of the rationale for this decision, while requiring the transitional body to be appropriately independent of the bodies subject to the audit contracts, was to enable the benefits of a sector-led approach to be realised.

Update

13. Preliminary work has already commenced in respect of the transfer of the staff currently undertaking the work to be transferred to the transitional body, including a meeting with the staff likely to transfer and the senior LGA team. The Audit Commission staff would transfer under TUPE regulations to a company that is part of the LGA group (see below).
14. A joint programme board with the Audit Commission has been established. The first meeting of the programme board with the Audit Commission has been set for mid-June and it will meet approximately every 6 weeks. Arrangements are being made to appoint a programme manager to oversee the implementation of the project.
15. An internal LGA project team has been set up to ensure the appropriate corporate, legal, financial and HR issues are scoped and addressed.

16. DCLG are working up proposals for the Transfer Scheme and will be setting out their expectations and the parameters within which they think the transitional body can and should operate. This will help inform us about the precise company structure and arrangements we will need to establish.
17. Given the range of public sector bodies covered by the current audit contracts, it is currently anticipated that a proportion of the Transitional Body Board membership, alongside a majority of independent Board members, will comprise representatives of those public bodies, e.g. health, police, fire authorities, as well as Local Government.
18. Work is currently underway to further develop the options, subject to the views of DCLG, for using an existing dormant company or establishing a new company, both of which would be under the aegis of the IDeA.
19. A new Board of Directors will be appointed to the company to oversee the transitional audit body. Although the company is (or would be) owned by the IDeA (which itself has the LGA as its parent company), the Board of Directors have a duty to operate in the best interests of the company itself, thereby fulfilling the requirement for the transitional body to operate at arm's length and be independent from the LGA and the IDeA.
20. Locating the functions of the transitional audit body in a single purpose company, rather than this being delivered as part of a broader range of services, will ensure complete transparency and a clear focus on the functions being transferred.
21. The joint Programme Board and LGA Project Group will be addressing and resolving a number of matters over the course of the coming months, e.g.
 - 21.1 TUPE arrangements and transfer of staff
 - 21.2 Accommodation and IT and other infrastructure
 - 21.3 Finalising company structure and Memorandum of Articles
 - 21.4 Making Board appointments
 - 21.5 Name of company
22. In the longer term, subject to any decision to extend the current contracts to 2020, the company and the public bodies involved in the audit contracts will need to give consideration (probably from mid-2015) to the arrangements and commissioning activity (including options around collaborative procurement) to be put in place to secure the proper auditing of those public bodies in the future.

Anticipated Timescales

23. Having regard to the above, the programme of work to be undertaken and the absolute deadline of 1st April 2015 for the transfer of the staff and functions, the following broad timeline for key activities is anticipated:

2014

End June: Confirmation of Transfer Scheme by CLG

End August: Sector led body regulations laid/made

Confirmation and modifications to LGIH Company, including statutory responsibilities

Mid October: Appoint Board members

End November: Audit Commission consults on audit fees for 15/16

First Board meeting held

2015

February Board meets to confirm budget and other key issues

1st April: Complete transfer of staff
Transitional Body becomes operational