

Committees:	Date:	Item no.
Audit and Risk Management	25 th June, 2013	
Subject: Local Audit and Accountability Bill	Public	
Report of: Remembrancer	For Information	
<p><u>Summary</u></p> <p>This report informs the Committee of the provisions of the Local Audit and Accountability Bill currently before Parliament.</p> <p>The Bill will abolish the Audit Commission and require local authorities to appoint auditors. A new framework for local audit will be put in place, including a requirement to have an advisory audit panel with a majority of independent members.</p> <p>The Bill will also modify the requirement to hold referendums on proposed increases in council tax.</p> <p>Recommendation</p> <p>The Committee are invited to note the contents of this report.</p>		

Report

1. The Local Audit and Accountability Bill was introduced in Parliament, following the Queen's Speech in May. Its main purpose is to finalise the abolition of the Audit Commission, a move first announced in a high-profile statement by the Secretary of State shortly after the present government took office. The general direction of the Bill is not expected to meet with significant parliamentary opposition, although there will be extensive discussion of the detail.
2. A separate aspect of the Bill, concerning the Code of Recommended Practice on Local Authority Publicity, is being reported separately to the Policy and Resources Committee.

Local Audit

3. The appointment of auditors of local authorities is currently the responsibility of the Audit Commission. The Bill will abolish the Audit Commission and transfer the duty to appoint local auditors to individual local authorities. The appointment will have to be made in full council, rather than by committee. Local authorities will be able to appoint auditors for a period of up to five years at a time.
4. In order to be eligible for appointment, an individual will have to be on a register of approved local auditors and meet certain requirements of independence and professional qualification, similar to those applicable in relation to private companies. Local auditors will be subject to regulation by the Financial Reporting Council, and will be required to operate in accordance with a code of practice formulated by the National Audit Office.
5. Local authorities will be required to establish audit panels to advise on the appointment of auditors and on the maintenance of an independent relationship between the authority and its auditor. Audit panels will consist of a majority of independent members (*i.e.* persons who have not been members or officers of the authority for at least five years, and who are not relatives or close friends of members or officers), one of whom must chair the panel. (As the Committee will be aware, the City Corporation has already established an Independent Audit Appointment Panel satisfying this description, for the purpose of leading the recent tender for the audit of the City's non-local authority funds.) Local authorities will be permitted to share audit panels. Local authorities will not have to follow the advice of their audit panels, but will have to publish reasons if they do not do so.
6. Local auditors will continue to examine both whether accounts have been properly prepared in accordance with legal requirements, and whether proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources. Auditors' powers for the prevention of unlawful expenditure and the making of public interest reports will be retained broadly in their current form.
7. The Audit Commission's programme of comprehensive area assessments has already ceased on the instructions of the Government. In its place, the National Audit Office will be given a more limited power to carry out examinations into the economy, efficiency and effectiveness with which local authorities have used their resources. The Government have indicated that no more than six such examinations will take place each year.
8. The new audit framework is intended to take effect for the financial year 2015-16, albeit that the local auditors will initially be those currently

working under out-sourcing arrangements made by the Audit Commission. Local authorities are expected to make the first appointment of local auditors for the financial year 2017-18.

Application to the City

9. The Bill's audit provisions will only apply to the work of the Common Council in respect of the City fund, the collection fund and the local government pension fund.

Council Tax

10. Under provisions introduced in 2011, local authorities are required to hold referendums to approve proposed increases in their 'basic amount' of council tax above a threshold (currently 2%) determined by the Secretary of State. At present, increases in the amounts charged by levying bodies are left out of account in calculating the basic amount. The Bill will reverse this, so that increases in levies will affect whether the referendum threshold is met. Amounts charged by major precepting authorities (such as the Greater London Authority) will continue to be dealt with separately.

Application to the City

11. The bodies currently charging levies to the City are the London Pensions Fund Authority, Transport for London (in respect of traffic signals), the London Borough Grants Scheme, the Lee Valley Regional Park, and the Environment Agency (in respect of flood defence). These levies account for less than four per cent of the City's council tax requirement in the current financial year, so it is unlikely that increases in levies alone would engage the current referendum threshold. The position could be different if an increase in levies were to coincide with an increase in the Common Council's own council tax requirement, or if the referendum threshold were reduced in future years.

Consultation

12. The Chamberlain has been consulted in the preparation of this report.

Recommendation

13. The Committee are invited to note the contents of this report.

Background Papers

- D.C.L.G., *'Future of local public audit: Consultation'*, March, 2011.

- *D.C.L.G., 'Government response to the future of local audit consultation', January, 2012.*
- *House of Commons Draft Local Audit Bill ad hoc Committee, 'Draft Local Audit Bill: Pre-legislative scrutiny', January, 2013.*
- *Written Statement to the House of Commons by Mr. Eric Pickles, 'Local Government Finance', 30th January, 2013.*
- *D.C.L.G., 'Government Response to the Pre-legislative Scrutiny Report by the Draft Local Audit Bill Committee', April, 2013.*

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