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Local Audit and Accountability Act 2014

An LGiU essential guide

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This guide was written by **Mark Upton**, a LGiU associate, and edited with additional material by **Janet Sillett**. This guide does not provide for a comprehensive and detailed description of every legislative provision contained in the Act. For that we would recommend also referring to the Act's explanatory memorandum.

All information in this guide is correct and reflects the position as at 31 March 2014.

Contents

Introduction

The *Local Audit and Accountability Act 2014* completed its passage through both Houses of Parliament and received Royal Assent on 31 January 2014.

The origins of the Act can be found in August 2010, when a Department of Communities and Local Government (DCLG) press notice announced the intention to cut many of the responsibilities of the Audit Commission in line with the government's commitment to radically scale back centrally imposed inspection and auditing. The Audit Commission's responsibilities for overseeing and delivering local audit and inspections were to stop, the Commission's research activities would end and audit functions would be moved to the private sector.

This was followed by a written ministerial statement issued on 6 September 2010 that announced the Commission would be abolished. The planned closure of the Commission was also listed in the government's proposals for reform or abolition of substantial numbers of quangos, published in October 2010. The decision to close the Commission outright was unexpected.

The Local Audit and Accountability Bill 2013-14 was introduced into the House of Lords on 9 May 2013. Its principal purpose was to abolish the Audit Commission and replace it with a new audit regime for local authorities, local health bodies and other public bodies covered by the Commission's remit.

The Audit Commission had been established by Part III of the *Local Government Finance Act 1982*. Its role was to appoint auditors to local authorities and other local bodies, either from District Audit or from private firms. It also drew up codes of audit practice, and had the power to carry out or order an extraordinary audit.

The Commission was responsible for appointing auditors – either from its own in-house practice or external firms – to local authorities, health authorities, and police and fire authorities in England. Legislation was consolidated in the *Audit Commission Act 1998*, though a number of further responsibilities were subsequently given to the Commission.

The Commission also prepared, and kept under review, codes of practice prescribing the way in which auditors were to carry out their functions under the 1982 and 1998 Acts. It had a general power to conduct "value-for-money studies" and research, looking at issues or best practice across multiple public bodies, in order to encourage sharing of experience.

The Bill followed a process of consultation and parliamentary scrutiny. This included a government consultation, the *Future of Local Public Audit Consultation Paper*, published in March 2011, a report from the Communities and Local Government Select Committee entitled *Audit and Inspection of Local Authorities*, in July 2011, and the *Draft Local Audit Bill* published on 6 July 2012 which was subjected to pre-legislative scrutiny by an ad hoc parliamentary committee.

When formally introduced to Parliament in May 2013 the Bill included two new provisions, the first concerning the local authority publicity code and the other adjusting the provisions for referendums on rises in council tax. Further provisions were added during the Bill's passage on the transparency of local authority meetings and on the conduct of parish polls.

Overall the Act:

- abolishes the Audit Commission and replaces it with a local framework for the audit of local government and certain NHS bodies, enabling them to appoint their own auditors

- amends the legislative framework for council tax referendums to provide that increases set by levying bodies (such as national park and joint waste disposal authorities) are taken into account

- allows the secretary of state to direct local authorities to comply with the local authority publicity code (*Recommended Code of Practice on Local Authority Publicity*).

- allows the secretary of state to amend the legislative framework governing the conduct of the 'parish polls'.

- gives the secretary of state power to increase access and transparency of local authority meetings held in public, including giving citizens and the press the explicit right to film and tweet from any meeting held in public.

The Act primarily deals with matters in England only, with some consequential amendments that extend to Scotland. The measures on local audit cover internal drainage boards that are partly in England and in Wales.

Transparency and accountability provisions

Council tax referendums

The *Localism Act 2011* introduced local council tax referendums by placing a duty on billing authorities, major precepting authorities (e.g. county councils, fire & rescue authorities and the Greater London Authority) and local precepting authorities (e.g. parish councils) to determine whether their council tax increase for a forthcoming financial year is 'excessive'.

This must be done with reference to principles set out by the secretary of state including a nationally prescribed maximum percentage increase. Where a local authority is seeking to set an excessive tax increase, it can only be implemented if local electors vote in favour of it.

Levies charged to the council tax by other bodies such as waste disposal authorities, integrated transport authorities, pension authorities and internal drainage boards were previously not included in this calculation.

The government has explained the rationale for their inclusion is:

> *"Because these are payments made by the local authority, they do not appear separately on the council tax bill. In some cases the levies paid out can make up over 40% of the council tax bill from the local authority."*

This was highlighted when several local authorities set a council tax increase for 2013-14 which was in excess of the national prescribed maximum of two per cent but were not required to hold referendums because the increases were driven by levy increases that, at the time, fell outside the referendum framework.

Legislative provisions

Section 41 of the Act amends the council tax referendum provisions in Chapter 4ZA of Part 1 of the *Local Government Finance Act 1992* (as amended by the *Localism Act 2011*) so levies are included in the 'relevant basic amount of council tax' (used for calculating what percentage increase a local authority is proposing); and therefore in a billing authority's calculation of whether its council tax increase is excessive for the purpose of determining whether a referendum is required.

The 'relevant basic amount' will continue to exclude any precepts issued to billing authorities, as precept-setting bodies are individually and separately subject to the referendum requirement.

Transitional arrangements are provided for (see Subsections (15) to (17)) in relation to the referendum principles that the secretary of state may set for 20014-15. They allow for different principles to be set for those authorities whose council tax increase for the financial

year 2013-14 would have been excessive if the relevant basic amount in that year had been calculated in accordance with the newly-amended legislation i.e. had included levies charged to the council tax. In short, this explicitly allows the secretary of state to consider the impact of previous levy increases when setting referendum principles for the financial year 2014-15.

As the legislation received Royal Assent before 5 February 2014, these provisions came into effect immediately (i.e. 31 January 2014); meaning they have been used to determine the council tax referendum principles for 2014-15.

Key policy issues

A number of issues were raised on introduction of the legislation and during its passage through both Houses of Parliament.

- As local authorities have no formal powers to reduce or reject levies charged to the council tax, even after a referendum, they would have to absorb any excessive levy increases via a reduction to their own budgets.

- By allowing the secretary of state to consider the impact of previous levy increases when setting the referendum principles for 2014-15, these provisions could be construed as retrospective; potentially penalising local authorities who could not have known that this provision would come before Parliament when they made their budgetary decisions for 2013-14.

  In response the government has maintained that local authorities were given sufficient advance notice of their intentions before council tax and levies were set for 2013-14 via a Parliamentary statement made on 30 January 2013 and an information note sent to all local authorities on 8 February 2013.

- That certain 'city deals', previously agreed with government, could be threatened as they are predicated on levy rises over a number of years. However ministers told Parliament that such deals only give rise to council tax levels "substantially below the current two per cent referendum threshold" making any transitional or special provisions for these deals unnecessary.

Parish council referendums

Schedule 12 of the *Local Government Act 1972* allows a parish referendum to be held on any matter arising from a parish meeting; instigated either by the meeting chair or by 10 electors or one-third of those present at the meeting, whichever is the less. The cost of holding such polls is met by the parish council, but the result is not binding.

The wide-ranging nature of this power and the low threshold required to trigger a poll has led to concerns that this could lead to costly referendums being held at the instigation of a very small number of voters. In the House of Lords ministers were told of various examples of recent polls which were viewed as either vexatious, on matters which did not

directly affect local areas or bore no relation to the responsibilities of parish and town councils.

Long-standing case law (*Bennett v Chappell*) recognises that a parish poll requested for a purpose that was *"devoid of practical application"* might not be granted by the returning officer. During 2007 and 2008 there were a number of parish polls demanded (and some were held) on the subject of the EU Treaty. In response the Audit Commission issued guidance to auditors of principal councils advising that such matters were unlikely to constitute parish affairs and that any expenditure incurred in polling might be unlawful and therefore irrecoverable.

The Localism Bill, as originally drafted, included provisions that would have allowed the Secretary of State to amend the parish poll regime by means of regulations. In the event, the clause was removed when other similar measures on local referendums for principal councils ran into trouble in the House of Lords.

Section 42 of the Act (by amending paragraph 18 of Schedule 12 to the *Local Government Act 1972*) permits regulations to be made regarding the conduct of parish polls - specifically the questions on which a poll may be demanded, the number of electors which may be required to demand a poll and the arrangements for the conduct of a poll, for example, the hours in which a vote may be cast.

Local authority publicity

Local authorities are required, when producing publicity of any kind, to have regard to the *Code of Recommended Practice on Local Authority Publicity*, which was first issued in 1988 (under Section 4 of the *Local Government Act 1986*) and revised in 2001. It recommends that any publicity should be lawful, cost effective, objective, even-handed, appropriate, have regard to equality and diversity, and be issued with care during periods of 'heightened sensitivity' including election periods.

The government's intention behind the latest version of the code, published in March 2011, had been to reduce the amount of publicity material produced by local authorities, believing that they were engaging in unfair competition with local newspapers. Consequently, the code now recommends that principal local authorities limit their publications to once a quarter, and parish and town councils limit their newsletters to once a month; it also includes a new recommendation on not incurring expenditure on external lobbyists.

Two years later the government was still not convinced that these recommendations had been fully complied with. Currently, the code has the status of statutory guidance which local authorities must have regard to, but there are no sanctions in the 1986 Act for authorities that fail to comply with its contents. The only available tool of compliance is judicial review – a route that the government is reluctant to take.

The government's key criticism is that some local authorities publish newsletters or magazines more than quarterly and that they sometimes contain political opinions. In a Parliamentary written answer (10 June 2013) local government minister Brandon Lewis, MP,

said that more than three-quarters of local authorities published a newsletter, with 10 per cent publishing more frequently than quarterly and a small number, weekly or fortnightly. More recent figures held by the Local Government Association (LGA) put this at 41 councils.

A consultation paper published in April 2013 (*Protecting the independent press from unfair competition*) proposed giving the code statutory force by giving the secretary of state powers to direct local authorities to comply with it. The outcome to the consultation (*Protecting the independent press from unfair competition: government response*) confirmed the government's intentions, justifying its actions that while newspapers are under commercial pressure, including changing reading habits, what it considered to be "taxpayer-backed competition" from council publications was still putting "the continuation of that industry at risk". The government's critics continued to demand the evidence for this, with the National Union of Journalists remaining unconvinced that council newspapers are damaging to local commercial newspapers.

In response to the criticism that a move from a voluntary code (with which the overwhelming majority of local authorities comply willingly with) to a statutory-backed code was not a proportionate response, the government has said:

> *"That there are currently relatively few cases of such non-compliance does not argue that it should be ignored. If left unaddressed there is the risk that these practices, damaging to the independent local press, could become more widespread, particularly as many in the sector would appear from the consultation not to accept just how damaging to the independent local media these practices can be."*

Legislative provisions

Section 39 of the Act amends the *Local Government Act 1986* to provide the secretary of state with the power to direct a local authority, a class of local authorities or all local authorities to comply with one or more of the recommendations set out in the Code. The secretary of state is not required to believe that an authority is failing to comply with the Code in order to give a direction. The Code and the directions only extend to England.

These directions will take the form of affirmative statutory instruments – that is they require the approval of both Houses of Parliament, and will be scrutinised by the House of Lords Secondary Legislation Scrutiny Committee. This does not apply to directions made to single local authorities that will not take the form of statutory instruments.

In these circumstances the secretary of state is required to give the authority or authorities advance notice in writing of the proposed direction. They then have 14 days to make their representations, after which the secretary of state may make the direction.

These provisions came into force on 31 March (i.e. two months after Royal Assent of the Act). In the meantime DCLG officials have written (25 March 2014) to local authorities informing them that the Secretary of State is minded to exercise these powers "as soon as practicable" where there is "some evidence of non-compliance since the Publicity Code was issued in March 2011, and there is no current unambiguous evidence available to him that the non-compliance has ceased and there is no *[sic]* risk of future non-compliance". At the

same time DCLG Ministers have written to a number of individual authorities drawing to their attention that "it has been suggested that [their] council might not be complying with the Publicity Code". These correspondences are formally 'out with' the legislation i.e. they are preliminary to the formal statutory process, set out above.

Key policy issues

A number of concerns were raised throughout the consultation, on introduction of the Bill and during its passage through both Houses of Parliament including:

- that this measure could lead to curtailing the freedom local authorities have to campaign and lobby on behalf of their electors, even on a cross-party basis; examples such as HS2 project and the expansion of Heathrow Airport have been cited. The government has said that these claims are exaggerated and that councillors are free to campaign on behalf of their constituents. However the LGA claims that it has received legal advice to the contrary.

- that it would be possible for a future government to change the code substantially while leaving in place the regime for directing local authorities to comply with it, thus giving a future secretary of state "a blank cheque" to "tie the hands" of local authorities. In response the government has pointed out that any changes to the code must be approved by Parliament and it would be possible to debate it in either House before it passed.

Government critics have also pointed out that beyond issuing a direction, the government will still not have any powers of enforcement or intervention; ultimately the only enforcement is via the courts.

Some have also sought to link the continued statutory requirement on local authorities to publish statutory notices in local newspapers. It is a generally held view that this is now an expensive and outdated method of communication costing, according to the LGA, in the order of £26m a year.

The government recognises that the current position is untenable, with local government minister Brandon Lewis telling Parliament that "commercial newspapers should expect less state advertising as more information is syndicated online by local authorities for free".

Seeing this as a *quid pro quo* with limiting competition from council newspapers, the minister believes that the local newspaper industry needed time to adjust, refusing to confirm reports that the government would permit statutory notices to be published online within the next two years.

Public reporting from council meetings

New powers to ensure that council meetings held in public are more transparent followed a series of ministerial interventions over the past three years responding to reports that some bloggers were being stopped from using Twitter or from filming during public meetings.

Moves by some councils to only accredit professional journalists to use Twitter have been criticised by ministers because they deny access to members of the public.These moves were made in order to comply with the *Local Government Act 1972* which states that councils are not required to allow photos to be taken of meetings *"or the use of any means to enable persons not present to see or hear any proceedings"* but are obliged to consider specific requests from accredited representatives of the press as defined by the 1972 Act.

Although other councils have taken a different view and ministers have long maintained that bloggers should be granted access, it has been decided to address the issue head on by securing new powers.

In 2012 the government changed secondary legislation to open up councils' executive meetings to the press and the public (see: *The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 (S.I. 2012/2089) ("the Regulations"*).

The coalition government had been critical of the existing executive arrangements, as there was only a requirement to hold meetings in public in certain limited circumstances.

The general principle of these new regulations was for the public to have access to meetings and documents, with exceptions, where a local authority executive, committee or individual was taking an executive decision. But these powers did not apply to councils' committee or full council meetings or to parish councils. The powers in the new Act sought to address this.

Legislative provisions

Section 40 of the Act gives the secretary of state a power to make regulations that may require local government bodies to allow members of the public the right to attend all their public meetings and to have access to records relating to decisions taken by their officers. Specifically these regulations will:

- allow people, including professional and 'citizen journalists' (e.g. bloggers), to film, photograph or audio-record meetings held in public or to use any other means that will enable a person not present at the meeting to see or hear proceedings at the meeting; this has been taken to mean social media including Twitter.

- include provisions to ensure that activities such as filming or photographing do not disrupt the good order and conduct of public meetings

- allow the recording of certain decisions taken by officers, including with regard to what information is to be included within the record of the meeting

- require written records and connected documents to be made available to members of the body or the public and to create offences for non-compliance with the regulations

- require or permit a body to give a notice of a meeting through electronic means e.g. the internet

- require or permit any documents required to be open to inspection to be made available electronically.

Section 40(11) of the Act also changes the notice period to be given for a meeting of a principal council from three to five clear days through amendments made to the *Local Government Act 1972*.

During the proceedings in the Lords, DCLG minister Baroness Stowell of Beeston stated that government guidance would be produced to help those filming meetings to avoid placing defamatory material online.

These provisions apply to London borough councils, county councils and district councils and their executives, the London Fire and Emergency Planning Authority and to joint committees of bodies to which Part 5A of the *Local Government Act 1972*. While provisions relating to access to recording of decisions and access to document will also apply to the Greater London Authority (including officers of the London Assembly and the Mayor's cabinet).

The government has been consulting informally (and see here) with local government representative bodies on draft regulations (to be called *The Openness of Local Government Bodies Regulations 2014*). These would, if approved by Parliament (these regulations are subject to the affirmative resolution procedure):

- require local government bodies to allow any persons including professional journalists to attend, film, audio record, take photographs or provide commentary on the proceedings at public meetings

- allow persons wishing to report or provide commentary on the proceedings at a meeting to use any communication means such as the internet to produce the result of their activities

- require local government bodies to keep written records of material decisions taken by officers under delegation from the relevant local government body, its committees, subcommittees or joint committees

- make it an offence for a person to intentionally obstruct, or refuse to make available for inspection by members of the public, documents relating to these decisions.

Local audit framework

The Act delivers the government's commitment to close the Audit Commission and replace it with a new local audit framework, giving local public bodies the freedom, with safeguards, to appoint their own auditors and manage their own audit arrangements.

In doing so they will be required to establish, consult and take into account the advice of an independent auditor panel. Where possible the Act replicates the regime for the statutory audit of private companies, with the Financial Reporting Council (FRC) taking over the regulatory oversight for local audit.

Auditors will continue to be required to compile with a code of practice, and will continue to bring any concerns to the attention of the public through public interest reporting. The Act provides for 'proportionate' audit arrangements for smaller authorities (i.e. those with a turnover below £6.5m).

Until it is abolished the Audit Commission – expected on 31 March 2015 – will retain responsibility to let and manage public audit contracts to the bodies which come under its remit. It has now outsourced all of these contracts to private firms (it previously undertook around 70 per cent of audits through its own internal practice). The remaining functions of the Audit Commission will be distributed among the following organisations:

- **The National Audit Office (NAO)** will take on responsibility for the Code of Audit Practice and guidance which sets out the way in which auditors carry out their functions. They will also take on the Audit Commission's responsibilities for conducting national value-for-money studies.

- **The FRC** will become the overall regulator of audit standards, mirroring the arrangements under the *Companies Act 2006*.

- The **professional accountancy bodies** are identified as "recognised supervisory bodies" charged with putting in place eligibility rules for those firms wanting to be appointed as local public auditors and the qualifications and experience required to be able to sign off an local audit report.

- Statutory responsibility for the **National Fraud Initiative (NFI)** will transfer to the Cabinet Office. NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

Outside the new legislative framework the Audit Commission's work in helping to tackle fraud and corruption will transfer to a new Counter Fraud Centre being established by the Chartered Institute of Public and Accountancy (CIPFA).

The Centre will work in partnership with a wide range of interested parties to support senior local authority leaders in management, governance and finance to tackle fraud and corruption. This will include taking over responsibility for the annual *Protecting the public*

purse report; though CIPFA will not benefit from the Commission's existing statutory powers to ensure participation. The Centre is expected to open in June 2014.

The final contracts for audit work let by the Audit Commission will run until 2018 (or 2021 if the government decides to extend the contracts by three years) and will therefore need to be managed past the anticipated closure of the Commission in April 2015. Responsibility for managing the Commission's audit contracts will transfer to a transitional body, together with the relevant Audit Commission staff.

This body will assume the statutory functions in relation to audit including: setting the standards of performance; appointing auditors; setting and determining fees; and making arrangements for housing benefit subsidy certification.

The government has announced that an independent private company, to be created by the LGA, will become that transitional body. Also transferring to the transitional body will be the Commission's Value For Money Profiles tool, which brings together data about the cost, performance and activity of local councils and fire authorities.

The Audit Commission's responsibilities for certifying the use by audited bodies of grant monies from central government is not provided for in the Act and will therefore cease.

The new audit framework will apply to a range of local public bodies including county and district councils, parish and town councils, fire and rescue authorities and clinical commissioning groups, special hospital trusts, police and crime commissioners and police chief constables.

A full list of these can be found in Schedule 2 of the Act. The framework will apply differently to these bodies. These differences are due to their different status and existing legislation. This guide focuses upon LGiU member interests in local government.

The main legislative provisions

The provisions relating to the new local audit framework take-up the vast majority of the Act's seven Parts and 13 Schedules: the main provisions are:

Abolition of the Audit Commission and the main requirements

- **The repeal of the *Audit Commission Act 1998* which abolishes the Audit Commission** and provides for the transfer of its assets, liabilities and continuing functions to other bodies (Section 1 and Schedule 1 of the Act).
- **A requirement to keep accounting records and to prepare an annual statement of accounts, which must be audited** (referred to in the Act and here as a 'local audit') following the pattern laid on companies and charities by the *Companies Act 2006* and the *Charities Act 2011*. (Sections 3, 4 and 32).
- **The secretary of state has the power to set a modified audit regime for smaller authorities i.e. those with income and expenditure under £6.5m** for three financial years running. This will allow the secretary of state to appoint auditor bodies, exempt them from specific and from all audit requirements. (Sections 5 and 6).
- **It is the government's intention to subject these smaller authorities, as now, to a limited assurance audit.** This will be specified via a schedule attached to the NAO-authored code of audit practice.
- **This is with the exception of those smaller bodies with a turnover of under £25,000 who will be exempted via secondary legislation from all routine external audit requirements.**
- **However these smaller bodies and all authorities whose income and expenditure is less than £200,000 will be subject to a new transparency code(s)** by amending Section 2 of the *Local Government, Planning and Land Act 1980* enabling the secretary of state to be able to issue codes of recommended practice as to the publication of information – as he does for local authorities (with an income and expenditure in excess of £200,000). (Section 38)

Appointment of local auditors

- **A requirement to appoint an external and independent auditor** by 31 December preceding the relevant financial year. The maximum length of appointment is five years. More than one auditor can be appointed jointly.

  The decision must be made by the full council and cannot be delegated. Information about the appointment must be published within 28 days of appointment. The decision to remove an auditor also rests with the full council. (Sections 7 and 8 and Schedule 3).

  If an authority fails to appoint an auditor, it must notify the Secretary of State who may then make, or direct an appointment (Section 12). The Secretary of the State

is given powers to make regulations concerning the process for a local auditor to resign or be removed (Section 16, see next section).

- **Local bodies have to establish, consult and take into account the advice of an independent auditor panel on the selection and appointment of a local auditor.** The Act does not require the auditor panel's agreement to the appointment of the auditor. But where the audited body chooses not to follow that advice they need to publish their reasons for not doing so.

  The Act sets out the different ways to meet the requirement of establishing an auditor panel, including sharing panels with other local public bodies and appointing existing audit committees where they meet the independence requirement of the legislation; which requires the panel's chair and a majority of its members to be independent.

  As well as advising on the appointment of the auditor the panel also advises on maintaining an independent relationship with the auditor (Sections 8, 9, 10 and 11 and Schedule 4).

- **Sector-led collective procurement of local audit services are also facilitated** by allowing, through regulations, for certain relevant authorities to have a local auditor to be appointed on their behalf by a body (an 'appointing person') specified by the secretary of state. Those regulations may also disapply or modify the Act's other provisions to facilitate collective procurement arrangements. (Section 17). These are in addition to similar powers in relation to 'smaller authorities' (under Sections 5 and 6 of the Act).

Eligibility and regulation of local auditors

- **The creation of a new regulatory framework for local audit which applies with modifications the regime for private sector audit contained in the *Companies Act 2006*** (Part 42 and Schedule 10) which sets out the arrangements for the eligibility and regulation of auditors. In addition the new Act set outs the specific independence requirements that must be complied with in order to be appointed as a local auditor and provides the secretary of state with a power to recognise a professional qualification specifically for local audit (see next section)

- **Auditors will be required, through the FRC, to be members of "recognised supervisory bodies" which will monitor the quality and standard of individual audits undertaken by their member firms**; except for those engagements that are designated as a "major local audit" (see below). It is anticipated that these bodies will be the professional accountancy bodies.

- **The FRC will review a sample of "major audits" as part of its annual monitoring programme.** The definition of "major audits" will be set out in regulations.

The conduct of local audit

- **Responsibility for setting the code of audit practice and supporting guidance will transfer from the Audit Commission to the NAO.** The current code will remain in force until a new one is produced. (Section 19 and Schedule 6)
- **The general duties of a local auditor and the conduct of audits largely replicate the provisions in the *Audit Commission Act 1988***, for example, retaining the current role in public interest reporting. The power of 'extraordinary audit' available in the current regime, allowing an audit of a public body to be directed at any time by the secretary of state, will not be retained under the new Act. (Sections 20 to 31, Schedule 7).
- This includes the **requirement that a local audit must include a value-for-money element** requiring the auditor to be satisfied that the authority has made proper arrangements for securing economy, efficiency and effectiveness in the use of its resources. (Section 20).
- **The right of local electors to inspect local authorities' accounts and related documents, without payment, is also retained** (Sections 25 and 26).
- **So is the right for local electors to lodge an objection to any items within the accounts. But that right has been limited in the new Act so as to give the auditor discretion over whether or not to investigate**; providing that they need not do so where the objection is considered to be frivolous, vexatious, where the costs would be disproportionate and where the objection repeats an objection already considered. (Section 27)
- **And the auditor retains the power to issue an 'advisory note' where it appears that the audited body may be about to undertake unlawful expenditure.** (Sections 29 and 30 and Schedule 8)

Data matching and other main provisions:

- **The Audit Commission's data matching powers for the purposes of assisting in the prevention and the detection of fraud** will transfer to the 'relevant minister' (either the secretary of state or the minister for the cabinet office) allowing for the continuation of the NFI. (Section 33 and Schedule 9)
- **The secretary of state will retain his power to commission an inspection of a best value authority** by an amendment to the *Local Government Act 1999* enabling him to appoint an external inspector. (Section 34 and Schedule 10)
- **The NAO will assume responsibility for undertaking examinations of thematic value-for-money issues relating to groups of relevant authorities**, but not individual local authorities. The NAO is required to consult relevant parties when developing its studies' programme and to take account of other studies being carried out (Section 35).

Secondary legislation

To give effect to the new audit arrangements many of the provisions in the Act require secondary legislation. Consequently the government has consulted on much of this secondary framework (*Future of local audit: consultation on secondary legislation*) and has published its response setting out its intended next steps (*Consultation on secondary legislation: summary of responses*). These include:

- introducing regulations for creating a bespoke regime for smaller authorities, including a policy enabling the exemption of certain smaller authorities
- introducing regulations for the independence, constitution and operation of independent auditor panels
- outlining the procedures to be followed in removing the auditor or responding to their resignation
- providing the requirements for the professional qualification of local auditors and defining those "major audits" which will be subjected to greater scrutiny
- changing existing legislation governing public meetings to consider public interest reports
- outlining the government's proposed approach to future changes to the regulations governing the detailed accounting, audit and reporting requirements.

Smaller authorities' regulations

These regulations (to be called *The Local Audit (Smaller Authorities) Regulations 2014*) to be made under Section 5 of the Act will enable the secretary of state to appoint auditors to smaller authorities, defined as those with an annual income and expenditure not exceeding £6.5m. This will facilitate the development of a sector-led body, as proposed by the National Association of Local Councils and the Society of Council Clerks.

The regulations will confer duties on a 'specified person' to appoint auditors and set fee scales and consult each authority on its proposed auditor (to ensure there are no independence issues) and representatives of bodies of smaller authorities and accountancy representatives before setting fee scales. The regulations establish a legally binding arrangement between the three parties: the specified person, the auditor firm and the smaller authority, whereby:

- the 'specified person' will be required to write and make an offer to smaller authorities, which will deemed to be 'opted in' unless they 'opt out' by the deadline set by the 'specified person' (a minimum of eight weeks). An authority's decision to 'opt-out' must be made in full council.
- the 'appointed person' will not be required to appoint a local auditor to a smaller authority that opts to prepare accounts as a principal authority and undergo a full audit.

- those that ‘opt in’ will have to do so for the whole of the proposed contract period. The maximum contract period will be five years, consistent with local audit appointments.

- an authority that ‘opts out’ will be able to request in writing to ‘opt-in’ during a contract period; a request which will be accepted by the ‘specified person’ unless there are reasonable grounds for not doing so.

- In the event that a smaller authority ‘opts-out’ but then fails to appoint an auditor the secretary of state will be able to order that the authority is ‘opted in’ and require the specified person to appoint an auditor.

- authorities that become aware that they will exceed the £6.5 million threshold to qualify as a smaller authority must notify the ‘specified person’ as soon as practical, otherwise they may be liable for any costs incurred.

Smaller authorities that ‘opt-in’ to the specified auditor appointment regime will not be required to appoint an independent auditor panel.

The government intends to consult further on these regulations in May 2014.

Exemption policy for smaller authorities

The consultation paper also sets out a policy statement on exempting (under Clause 5(6) of the Act) specified ‘smaller authorities’ from all audit requirements including the limited assurance form of audit. No draft regulations have been produced for this.

The intention is to exempt authorities by reference to the higher of the authority’s gross income or gross expenditure in a given year, with a threshold of £25,000. Instead, these authorities will be subject to new transparency requirements to be laid out in a statutory code. See next section of this guide for details.

However the exemption will not apply where: a smaller authority is newly established for the first three years; a public interest report has been made or an item in the accounts has been declared unlawful in the previous year; or where an auditor has exercised certain other statutory powers in relation to an authority (e.g. issued a written recommendation, sought a judicial review or issued an advisory notice).

Smaller authorities that qualify for an exemption may still choose to have an audit; while all smaller authorities, including those which are exempt, will be required to appoint a local auditor to ensure local electors will be able to ask questions of the auditor and/or raise an objection to an item of account.

Regulations made here may also set out the process that will underpin the exemption, indicating in its response to the consultation that the authority will be responsible for self-certifying its exemption.

The government has stated that it intends, sometime in the future, to review the £25,000 threshold with a view to increasing it further if it has worked well.

Auditor panel independence regulations

This draft regulation (to be called: *The Local Audit (Auditor Panel Independence) Regulations 2014*) to be made under Section 10 and Schedule 4 of the Act supplements the 'independence' requirements on auditor panel members (set out in paragraph 2 of schedule 4 of the Act) by addressing any commercial links between an individual and a relevant authority and those between an individual and the appointed or prospective audit firm.

Auditor panel regulations

The draft regulations (to be called *The Local Auditor (Auditor Panel) Regulations 2014*) to be made under Section 10 and Schedule 4 of the Act make further provisions about the constitution and operation of independent auditor panels, including:

- requiring panels to have a minimum of three members, and at least three members (and a majority of independent members) to be present to be quorate
- making clear that an authority may choose to pay their panel members and require that independent members are appointed via an open process
- requiring a policy around the removal or resignation of panel members
- giving the panel the additional function of advising the audited body on awarding 'non-audit' work to their appointed auditor
- applying three existing local authority requirements to auditor panels: public access to meetings; political balance amongst any councillors serving on panels; and the application of the local government standards regime.

The government is also planning to issue written guidance (under Section 10 of the Act) on detailed matters such as the appropriate skills and experience of independent members and the panel's precise role in the appointment process.

Auditor resignation and removal

These regulations (to be called *The Local Audit (Auditor Resignation and Removal) Regulations 2014*) to be made under Section 16 of the Act will set out the process to be followed in removing an auditor or where an auditor wishes to resign. In summary:

- Both parties will be required to give 28 days' written notice and provide to the other party a written statement, allowing the other to provide a response, both of which will be reviewed by auditor panel.
- The panel will then, in the case of removal, provide advice to the audited body, which must be taken into account.
- Following a resignation, the auditor panel must investigate the circumstances and explain any actions that it considers necessary of the relevant authority.

- In both scenarios a new appointment must be made within three months.

Eligibility and regulation of auditors

These regulations (to be called *The Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014*) to be made under Section 18 and Schedule 5 of the Act will recognise a qualification for local audit and define what will be considered to be a "major local audit", which will be subjected to additional monitoring by the FRC. Specifically:

- the local auditor must have a qualification which is recognised by Part 42 of the *Companies Act 2006* or a qualification which meet the requirements set out in Part 2 of these regulations

- the threshold for "major local audits" will cover those bodies whose income or expenditure exceeds £500m or in the case of pension funds, those that have over 20,000 members or that hold assets of over £1,000 million.

The FRC, under the Companies Act as it applies to local audit, will also be able to decide if the audits of any other local bodies should be subject to additional reporting. Those audits that fall outside the definition of a "major audit" will still be subject to scrutiny from the recognised supervisory bodies.

The government proposes to delegate to the FRC the regulatory-making powers covering the registration of local auditors by the supervisory bodies, and for making public certain information about their ownership, governance and internal controls of audit firms undertaking major local audits. These mirror the arrangements for statutory private sector audit.

The government is also proposing an order made under the *Companies Act 2006* to delegate various powers under the 2014 Act so, as for statutory private sector audit, the FRC becomes the overall supervisory body for local audit.

Public interest reports

The government is proposing to make regulations (under paragraph 5(9) of Schedule 7 of the Act) to modify the requirements on Port Health Authorities and Internal Drainage Boards (and other persons or bodies referred to in paragraph 29 of Schedule 2 of the Act) so that they must consider a public interest report or recommendation "as soon as practicable" rather than within a month of receipt – as for most other local authorities; believing this to be more appropriate as these bodies are currently not required to hold public meetings.

The government also proposes to extend, through regulations (under powers in paragraph 5(1) of Schedule 7 of the Act), existing legislation that governs how local bodies that are required to hold public meetings will consider public interest reports or recommendations made by their auditor.

These requirements include: the admission of the public; requiring the meeting agendas to the published in advance; preventing the meeting from excluding reports and

recommendations; and requiring these documents to be available for inspection before the meeting. These already apply to most local authorities; the effect of the new provisions would be to extend these to others including the London Waste and Recycling Board, a Charter Trustees and a parish meeting of a parish which does not have a separate parish council.

Accounts and audit regulations

The *Accounts and Audit (England) Regulations 2011* set out provisions on financial management, internal control, internal audit, the content of published accounts and the procedures affecting the published accounts, public rights and the audit. These are supplemented by a professional code (*Code of Practice on Local Authority Accounting in the United Kingdom*) produced by the professional accountancy bodies under the supervision of the Financial Reporting Advisory Body.

The government proposes to issue new draft regulations for consultation later in 2014 to replace the 2011 regulations. The consultation sought views on a range of issues ahead of this, including:

- moving to a more principles-based specification of duties relating to records and controls (see Regulation 5 on accounting records and control systems under the 2011 Regulations)

- consideration of whether the requirement to *"undertake an adequate and effective internal audit of its accounting records and of its system of internal control"* properly reflects the role of a modern internal audit function (see Regulation 6 on internal audit)

- improving the transparency within the process of approving and publishing the statement of accounts (Regulation 8) involving potential additional requirements:
  - that the certified statement is put on the local authority's website prior to the audit and laid before a committee or a full meeting of the authority
  - requiring the re-publication of the accounts, with the audit opinion and certificate, if the audit is completed after the 30 September publication deadline

- bringing forward, over time, the deadline for publishing audited accounts to late June or mid-July from 30 September, to align with practices in the rest of the public sector

- considering options for setting a consistent approach to the period during which the public can inspect the certified accounts and raise questions before the audit is conducted, together with making additional requirements to require authorities to publicise these inspection rights, for example in the council tax bill or leaflet. (Regulations 21 to 28 and 9 to 11).

In responding to the consultation the government was not drawn upon the direction it intends to take on each of these issues in preparing the draft regulations for consultation. It has said that new accounts and audit regulations will also be necessary for smaller

authorities. The issues set out above will be relevant, but as with principal councils the government expects to maintain many of the current provisions.

Transparency code for smaller authorities

Under the new local audit framework, smaller authorities with an annual turnover not exceeding £25,000, including parish councils, will be exempt from routine external audit. Instead, these authorities will be subject to new transparency requirements set out in a code determined by the secretary of state issued under Section 2 of the *Local Government, Planning and Land Act 1980*.

It will act as "an audit substitute", enabling local electors to access the information they need about the authority's accounts and governance in order to hold the authority to account; with the government maintaining that most of this information is already produced by the majority of these authorities. The code will not replace or supersede existing legal requirements, for instance, *Freedom of Information Act 2000*.

The government has already consulted on its intentions through the consultation on the draft legislation. In March 2013 it published for consultation a draft code for parish councils, (*Consultation on a draft transparency code for parish councils with a turnover not exceeding £25,000*) with the intention of issuing a separate consultation on a further draft transparency code(s) for other smaller authorities.

In relation to parish councils the information which is expected to be required to be published annually no later than 1 July each year includes:

- all items of expenditure – there may be a threshold set at £50 or £100
- end of year accounts
- annual governance statement
- an internal audit report
- the location of public land and building assets
- agendas, approved minutes and papers of formal meetings (recommending more frequent publication)
- a list of councillor responsibilities

It is the government's intention that the code will be mandatory (through regulations made under the Section 3 of the *Local Government and Land Act 1980*), because the code will be a direct substitute for routine external audit. It also proposes to require electronic publication. However, it does not propose placing a parish meeting of a parish which does not have a separate parish under a duty to comply with the code, as this would be onerous given they generally do not have staff nor a website.

Impact assessment

The government's rationale for the new local audit framework set out in its impact assessment (Local Audit and Accountability Bill: local audit impact assessment) is grounded in the perceived weaknesses in the current arrangements. These are:

- the lack of local accountability with local public bodies having very little influence over who their auditor will be or how much they will pay for that service

- the lack of transparency and incentive to drive down costs with local bodies unable effectively to hold the Audit Commission to account for what it does (and what they pay for) including wider non-audit activities (e.g. national studies, as well as the Commission's liaison with external partners and government)

- duplication across regulatory regimes and in particular that as regulator, the Audit Commission sits alongside and overlaps with the Companies Act regulatory audit sector, with broadly the same firms undertaking audits for both sectors.

Additionally the government sees *"no inherent justification for the public sector to be the main provider of local public audit"*.

The government has argued that the new audit regime would result in savings worth £730m over five years (2002 to 2017 – the duration of the Audit Commission's contracts) and an estimated £1.28bn over 10 years.

By 2018-19 it estimates an annually reoccurring benefit of around £182m. This has been contested by a number of stakeholders, as the vast majority of this saving has already been delivered as a result of axing the Audit Commission's inspection work (including the Comprehensive Area Assessment).

The parliamentary committee, which considered the draft Bill in 2012-13, believed that more "modest" savings would be achieved in abolishing the Audit Commission in its present and reduced form and moving to the local appointment of auditors.

Using the same approach as the Committee and using the latest version of the impact assessment (to the one the Committee considered) indications are that this would be approximately £4.8m per annum (i.e. the difference between the total annual cost of the audit regime in 2014-15, £83.5 million, the final year of the Commission, and the equivalent figure in 2018-19 – £78.7 million).

The government has said it will update this impact assessment in spring 2014.

Key issues

Below are some of the key issues which arose both prior to and during the passage of the legislation through Parliament.

Scope of public audit

CIPFA has voiced concerns, also picked up by others, that "*the wider scope of public audit*" has not been embedded in the new legislative framework. This wider scope goes further than private sector audit in requiring regularity, propriety, probity and value for money to be considered, as well as providing the audit opinion on financial statements.

The government believes that the standards set by the Financial Report Council, which local auditors in the future will have to comply with, ensure that firms have the capabilities to undertake local audit.

Audit market, joint and centralised procurement and fee levels

Throughout the development of the policy and the legislative process there have been widespread calls, most notably from the LGA, to retain a central procurement capability. This is fuelled by the belief that the £150m (over five years) efficiency savings which have been realised by the Audit Commission in outsourcing its in-house audit practice will not be sustainable though individual and local procurement.

There is some scepticism that local procurement, as the government maintains, will strengthen and grow what is considered to be a concentrated market; currently seven private firms conduct all local audit in England. This is owing to the specialist nature of the work and the long-term investment required by firms to build capacity to carry out public audit. There are specific concerns that remote areas may find difficulties in attracting supply and could face higher fees.

Overall if the market concentrates further, or even stands still, this will eventually lead to higher, not lower, fees (it has been argued that national procurement could guard against this). Just a 10 per cent increase in fees will completely wipe out any predicted future savings in the new framework. Audited bodies will have to bear the additional cost of conducting an EU-compliant procurement at least every five years.

The government's own impact assessment recognises that local bodies even procuring jointly will have a lower bargaining power than the Audit Commission does at present; while a government-commissioned report from FTI Consulting (*Future of local public audit*) believes that a single buyer in a market would lead to lower prices.

The LGA has costed the different procurement options, calculating that central procurement and appointment could save the public purse as much as £200m over a five-year period when compared with local appointment:

Option	Total cost (£m) over five-year period
Local choice	650
Joint procurement	613
Framework agreement	599
Central procurement (opt in)	550
Central procurement (opt out)	487
Mandated central procurement	445

Meanwhile a Competition Commission investigation (*Statutory audit services market investigation*) found that "the overwhelming majority" of large company audits were prepared by one of "the big four" firms.

Furthermore, audit firms "frequently and repeatedly reappointed", with almost a third of FTSE 100 companies and a fifth of FTSE 250 firms retaining the same auditor for more than 20 years; between two-thirds and half of these companies have had the same auditor for more than 10 years. Those companies that put out to tender or switched their auditors had, on average, obtained a relative price reduction, but this saving was generally eroded over the following three years.

The government's own advisors believe that the competition authorities may have concerns if there was a move towards replication of the structure of the private sector audit market; however those same advisors also believe that, while potential public audit providers face additional barriers to entry, overall these are lower than for large companies' audits.

They predict that the market for local audit will be "imperfect", with audited bodies being guided by brand, reputation and size of firm and not just price. On the supply side they foresaw difficulties in encouraging new entrants and in the expansion of existing firms. The experience in the audit market for NHS Foundation Trusts suggests tendencies to concentration, while there has been reduction in fees, at least in the short run.

Following calls from the LGA, the government introduced measures into the legislation at committee stage in the House of Commons giving the secretary of state the power to make regulations which will facilitate sector-led joint procurement arrangements for principal councils (see Section 17 of the Act).

Separate powers are already provided for and are being used to support an optional joint procurement arrangement being put together by the National Association of Local Councils and the Society of Council Clerks to buy in bulk audit services on behalf of smaller authorities (i.e. parish and town councils) (see Section 5 of the Act and previous section of this guide).

The LGA has also been in talks with local authorities to establish how many would be willing to use the services of a sector-led procurement body for principal councils. The prospects for such an arrangement are increasing with the announcement that the LGA will manage the current national contracts when the Audit Commission is abolished next year.

Ministers have said they do not want to mandate participation; though the draft regulations that have been published to facilitate the proposed joint procurement arrangement for 'smaller authorities' are on the basis that smaller authorities have to 'opt-out' by a strict deadline otherwise they are assumed to be taking part.

Indemnifying local auditors

While the Act allows auditors to recover "reasonable costs" for their time in exercising any of their statutory functions, the government has chosen not to replicate the Audit Commission's indemnity scheme which covers the cost of auditors for defending legal actions.

The government, pointing to the small number of cases where auditors have faced legal action, believe that it is appropriate for private companies to bear this risk, including through insurance. They also expect, in any case, that many local bodies and firms will wish to agree a limit on indemnity to be included in the contract, which should prevent this becoming a significant upward pressure on fees.

In these circumstances Section 15 of the Act requires local bodies to seek and consider its auditor panel's views on any liability limitation agreement, and that any decision to enter into such an agreement must be made by the full council and cannot be delegated.

Independent auditor panels

When the draft Bill was published the reaction of the vast majority – primarily local authorities – was that there were enough checks and balances in the system already to make independent auditor panels unnecessary. Some, including the Association of Chartered Certified Accountants, pointed out that they would duplicate existing audit committees.

The parliamentary committee, which scrutinised the draft Bill, called for an alternative approach by making audit committees a statutory requirement and independent so they could then take on the role of auditor panels alongside their existing functions. This would replicate the new regime as it applies to health bodies, which are required to have audit committees. Currently in local authorities there is no statutory requirement for these, although some 80 per cent of local authorities do have such a committee.

These issues resurfaced during the Bill's passage through both Houses of Parliament, where the view was also expressed that local bodies would find difficulty recruiting sufficient independent members.

The government has maintained that auditor panels are necessary – a position not significantly challenged in Parliament – pointing out that it is giving local bodies flexibility so that they can share a panel with other bodies and use existing audit committees where they meet the independence criteria; while those smaller authorities that opt into the collaborative procurement arrangement will not be required to have a panel.

Public interest reports

The Act replicates the existing powers for auditors to produce public interest reports on any matter that they judge should be made available to the public. However, with local bodies appointing their own auditors the auditor will have a very different relationship with the audited body than they do now. There is a concern that they may be more cautious when considering whether or not to issue such a report, in the belief that it may impact on their relationship with their client.

These concerns, expressed by many including the professional accountancy bodies, are reinforced by a *2011 New Local Government Network Report* which found that of those NHS Foundation Trusts that already appoint their own auditors, not one had been subject to a public interest report since 2008.

The government recognises this is a concern. In its response to the consultation on the new framework it pointed to the role of the independent auditor panel and the arrangements for protecting auditors in undertaking and receiving payment for public interest reports as a way of addressing this issue.

Value-for-money studies

Initially the transfer of the Audit Commission's role in undertaking national value-for-money studies to the NAO drew contrasting comments.

The parliamentary committee was concerned the NAO might not have sufficient resources to undertake the additional work involved and it argued that the NAO should be given powers to instruct auditors to provide them with consistent performance data so that comparisons could be made. However, the government firmly rejected any additional data requirements.

The LGA's initial concern was the implication that studies of local government's performance, practices and decision by a national central body could amount to further central oversight of local government; it wanted a limit placed on the number of studies, fearing that without one there was a potential danger of 'mission creep'. (The NAO already produces studies relating to government policies and programmes that are implemented by local authorities, but it does not focus specifically on the work of the sector.)

Those concerns appear to have been somewhat allayed by changes made to the Bill. Now the NAO is required to consult with relevant parties on any studies it proposes to conduct. The government is keen to stress that the powers do not enable examinations of individual authorities, nor are they designed to produce performance assessments of individual authorities or comparative analyses in the form of published league tables.

In response the NAO said that it intended to produce only six local government value-for-money reports a year, a much smaller number than the Audit Commission's previous programme; though this is only a policy commitment and is not embedded in the legislation.

Margaret Hodge, MP, chair of the Public Accounts Committee (to whom NAO value-for-money reports are addressed) may have a different view of the situation. In a report in the *Local Government Chronicle* she said that particular councils could be subjected to a "deep dive" investigation by her Committee as part of broader reviews of local government performance.

Furthermore, in a speech to the Association of Chartered Certified Accountants she stated: *"Local authorities, you will be accountable to us, we will be able to haul you in."*

However, Margaret Hodge admitted that the NAO and her Committee might not have the resources and capacity for the job she described. She offered the prospect of future changes, adding: *"We do the best we can, but I think we will have to see three, four, five years down the line whether actually the current settlement about accountability and audit is appropriate for the landscape of public services that we have got."*

In the meantime the NAO has already started to augment its programme of work with a small number of additional studies, which it believes provides for a more 'end to end' view of the use of public funds. It recently appointed Sue Higgins, former director-general at both DCLG and the Department for Education and strategic director of resources at the London Borough of Sutton, to be the member of its leadership team with responsibility for local government work.

The NAO has also established a Local Government Reference Panel with members drawn from across the local government sector, including representatives from the LGA, Solace, and the Local Authority Treasurers' Societies. The panel is used to discuss the NAO's work related to local government policy and potential topics for value-for-money studies.

Next steps

The government plans to introduce the new regulatory regime for local audit in 2015-16. From 2017-18 local bodies will be able to appoint their own auditors following the end of the nationally procured outsourcing contracts:

2014/15	Final year of Audit Commission framework
	Before April 2015, the Audit Commission closes and its functions are transferred
2015/16	New local audit regime is introduced
	Outsourcing contracts are transferred to another body to run their remaining two years.
2017/18	Local bodies appoint their own auditors from the start of the financial year

The government has identified measures it will be taking to establish the local audit framework, including:

- reviewing what arrangements are needed for the analysis of external audit results to ensure that the necessary assurance can be provided to Whitehall accounting officers in line with their responsibilities after the Audit Commission is closed
- deciding whether or not to take up the option to extend the existing audit contracts for a further three years beyond 2016 and 2017
- drawing up final regulations on the appointment of auditors, and audit resignation/removal, eligibility and regulation of auditors and the conduct of local audit (public interest reports), which will be laid in summer 2014
- promising further consultation on other draft regulations in May 2014 covering smaller authorities (exemptions and for specified person to appoint auditors), to

allow the establishment of a sector-led body to procure/appoint local auditors, and new accounts and audit regulations (to be laid later in 2014)

- planning to issue written guidance, for instance on the detailed operation of independent auditor panels
- responding to the consultation and the issuing of a transparency code for parish councils
- consulting on a draft transparency code(s) for other smaller authorities
- undertaking a post-implementation review and evaluation of the new audit framework once it is in operation.

Annex A: Timeline

13 August 2010	The government announced its intention to abolish the Audit Commission and put in place new decentralised audit arrangements.
September 2010	The Audit Commission publishes its own consultation paper *The Future of Local Audit: issues for consideration.*
March 2011	Publication of the government's proposals for local audit for consultation (*Future of local public audit consultation: government response*), seeking views on how to build a local audit regime based on the private sector regulatory regime, with local bodies appointing their own auditors. A summary of the responses and a government response was published January 2012 (see below). Publication of *Code of Recommended Practice on Local Authority Publicity.*
July 2011	DCLG Select Committee publishes a report on the audit and inspection of local authorities (*Audit and inspection of local authorities*). The government publishes its response (*Government response to the Communities and Local Government Select Committee Report Audit and Inspection of Local Authorities*) in October.
January 2012	The government publishes its response to the local audit consultation (*Future of local public audit consultation: government response*)
March 2012	The Audit Commission announces the award of five-year audit contracts from 2012-13, awarded to four private firms, and separate five-year contracts for the audit of small local bodies to four private firms. It retendered all its remaining audit contracts from 5 April 2013.
6 July 2012	Publication of draft legislation (*Draft Local Audit Bill*) on local audit for further consultation and pre-legislative scrutiny. It included policy discussion and consultation and a draft impact assessment.
24 October 2012	The government publishes a summary of the consultation responses on the draft legislation on local audit (*Draft Local Audit Bill: summary of consultation responses*).

Continued...

17 January 2013	Ad-hoc parliamentary committee established in September 2012 publishes its report and recommendations on the draft legislation (*Draft Local Audit Bill: Pre–legislative Scrutiny*). The government publishes its response in April 2013 (see below).
31 January 2013	The secretary of state announces his intention to legislate to include levying bodies within the council tax referendum framework.
8 April 2013	The government publishes a consultation proposing to give the *Code of Recommended Practice on Local Authority Publicity* statutory force.
25 April 2013	The government publishes its response to the ad-hoc parliamentary committee's recommendations (*Government response to the pre-legislative scrutiny report by the draft Local Audit Bill Committee*)
9 May 2013	First reading in the House of Lords of the Bill and its publication.
21 May 2013	Publication of the government's response to the consultation on the publicity code (*Protecting the independent press from unfair competition: government response*)
25 November 2013	Consultation begins on the draft secondary legislation for the new audit framework (*Future of Local Audit: Consultation on secondary legislation*). The consultation closed on 20 December 2013.
31January 2014	The Bill receives Royal Assent and passes into law.
10 March 2014	Publication of the summary of the responses to the initial consultation on the draft secondary legislation for the local audit framework (*Future of Local Audit – Consultation on secondary legislation: summary of responses*) together with the outcome on key issues.
10 March 2014	The government publishes a consultation paper and a draft transparency code for parish councils (*Consultation on a draft transparency code for parish councils with a turnover not exceeding £25,000*). A separate consultation on a draft code(s) for other smaller authorities will take place at a later date. The code will act as a substitute for those smaller authorities exempted from routine external audit.
21 March 2014	The government announces that the LGA will lead the interim audit arrangements once the Audit Commission is abolished in 2015 until the local appointment of auditors is in place either in 2017 (as expected) or 2020 (if the existing contracts are extended).

References

Local Audit and Accountability Act 2014

Local Audit and Accountability Act 2014 – explanatory notes

Local Audit and Accountability Bill: local audit impact assessment (May 2013)

Future of local audit: consultation on secondary legislation (November 2013)

Recommended code of practice for local authority publicity (March 2011)

LGiU (Local Government Information Unit) is a think tank and membership association, with c 200 local authorities and other organisations subscribing to its services. LGiU's mission is to strengthen local democracy to put citizens in control of their own lives, communities and services. LGiU is a registered charity run by its members for its members.

LGiU works with NDPBs, NGOs, and private and voluntary sector partners, as well as councils: providing briefings on emerging national and regional policy, publishing its own policy reports and recommendations, and seeking to influence decision-makers and policy teams locally, regionally and centrally.

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