



Department for  
Communities and  
Local Government

# Local Audit and Accountability Bill

A Plain English guide

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# Introduction

1. On 13 August 2010, the Secretary of State for Communities and Local Government announced the government's intention to close the Audit Commission and create new arrangements for auditing England's local public bodies. This helps to deliver the Coalition Agreement pledge to reduce the cost and number of public bodies and will encourage councils to make sensible savings.
2. The Audit Commission no longer has an in house audit practice. Instead it contracts with private firms to audit local bodies on its behalf. In addition, the government ended the Comprehensive Area Assessment regime in 2010, freeing local authorities from £25 million in compliance costs and enabling them to focus on service delivery and meeting local people's needs.
3. The Local Audit and Accountability Bill is the final step in a programme of reforms to local audit that will deliver estimated savings to the taxpayer of £1.2 billion over a ten year period and help local people hold their councils and other local public bodies to account for local spending decisions.
4. Local audit is an essential tool for providing assurance that local bodies are spending public money. The reforms contained in the Local Audit and Accountability Bill complement the government's existing initiatives to strengthen local accountability by increasing transparency (for example asking all local councils and fire and rescue authorities in England to publish spending information over £500 online) and enabling the scrutiny of public bodies by local people. Greater transparency of public bodies is at the heart of enabling the public to hold politicians and public bodies to account. Where public money is involved there is a fundamental public interest in being able to see how it is being spent, to demonstrate how value for money has been achieved or to highlight inefficiency.
5. The Local Audit and Accountability Bill delivers the government's commitment to close the Audit Commission and transfer its remaining functions. The Bill will put in place a new local audit and accountability framework for local public bodies in England. This replaces the centralised arrangements for the audit of local bodies with a more localist approach, giving local bodies the freedom to appoint their own auditors from an open and competitive market; manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain the same high audit standards.
6. As a result, audit services will be better matched to local bodies' individual needs. The Bill will also protect the rights of taxpayers to inspect local bodies' accounts and allows them to say if they think there are matters that the auditor should examine. In addition, the Bill maintains public interest reports and we intend that the new regime should safeguard whistleblowing protections through secondary legislation.
7. The Bill encourages a focus on value for money and increases local accountability by ensuring compliance with existing rules to protect the independent free press from unfair competition by town hall newspapers. This delivers a Coalition Agreement pledge to give greater force to the *Code of Recommended Practice on Local Authority Publicity*. The Bill enables this by giving the Secretary of State the power to

direct local authorities to comply with the Code. The Bill also takes a value for money approach and drives local accountability by extending the power of local taxpayers to veto excessive council tax increases, by taking account of any change in levies paid to external bodies.

8. All of these measures contribute to a wider government commitment to make councils more open and accountable. This will help to deliver greater localism, decentralisation and transparency.

## About this guide

9. This document describes the main measures set out in the Local Audit and Accountability Bill. The proposals described in this document are subject to Parliamentary debate. They can only be put into practice when Parliament agrees to them. They will be discussed at length by both the House of Commons and the House of Lords.
10. You can read more about how a Bill becomes law on the Parliament website at the following address:  
<http://www.parliament.uk/about/how/guides/factsheets/legislation/l1/>
11. This document is designed to give an overview only. You can read the Bill and its explanatory notes in full, and follow its progress through Parliament, on the Parliament website.

## Why is the Bill needed?

12. Government has already taken a number of steps to strengthen local accountability by increasing transparency and enabling local scrutiny of public bodies.
13. The Bill enables the closure of the Audit Commission's residual functions which meets the Coalition Agreement pledge to reduce the cost and number of public bodies. The Bill will also put in place new streamlined, localist arrangements for the audit of local public bodies and wider measures to increase local accountability.
14. Since the Audit Commission was created, its remit and functions have expanded significantly beyond what was originally intended. The Audit Commission acting as regulator, commissioner and provider of local audit services created a system with weak cost incentives that became too focused on reporting to central government rather than to local people.
15. Putting local bodies in charge of procuring their own auditors, as companies and charities already do, will create greater transparency as local bodies will have greater control over how much they pay for their audit services. They will no longer have to fund the Audit Commission's overheads and pay for its other activities and, as a result, there will be greater incentives to keep costs down.
16. The Bill will protect the rights of taxpayers to inspect a local body's accounts and raise objections if they think there are matters on which the auditor should report, ensuring that local people can continue to use this mechanism to hold their local bodies to account.

## Who does what at the moment and how does the Bill change this?

17. The Audit Commission currently appoints auditors to a range of local public bodies in England. It sets expected standards for auditors and oversees their work. It also compares data across the public sector to identify where services could be open to abuse and help organisations fight fraud.
18. The Bill sets out a new framework which requires local bodies to appoint their own auditors. Local public bodies will have to appoint their own auditor at least once every five years. They will need to consult and take into account the advice of an independent auditor panel. They will be required to publish information about the appointment of an auditor within 28 days of making the appointment.

## What is the purpose of the Bill?

19. The Local Audit and Accountability Bill delivers the government's commitment to abolish the Audit Commission and will put in place a new local audit and

accountability framework for local public bodies in England. This framework allows local bodies to appoint their own independent external auditors. There will also be a new audit framework for local health bodies. As a result, audit services will be better matched to local bodies' individual needs.

20. The scope of the audit will remain very similar to the current audit, and auditors will continue to be required to comply with a code of practice and have regard to guidance. In the new framework, these will be developed by the Comptroller and Auditor General of the National Audit Office.
21. The Bill will also continue the auditor's role in bringing any appropriate concerns to the attention of the public through public interest reporting, and local transparency and accountability will be enhanced through the local body being required to publish any public interest reports, and their response to these. The Bill protects the rights of taxpayers to inspect the accounts of local bodies and raise any questions and objections with the independent auditor.
22. The new framework will retain a proportionate audit regime for smaller authorities (those with a turnover below £6.5 million). This will include exempting those authorities with an annual turnover below £25,000 from automatic external audit and introducing a new transparency requirement to enable local people to access relevant information about the authorities' accounts and governance. A mechanism will be retained for auditor-led scrutiny at these authorities if problems are identified.
23. The audit arrangements for both National Health Service Trusts and Clinical Commissioning Groups will follow the arrangements for other local public bodies, but with some differences. These differences arise due to the status of these bodies and the fact that they are already required to have an Audit Committee.
24. The Bill encourages a focus on value for money through enabling the National Audit Office to undertake value for money examinations relating to thematic issues faced by local public bodies, and increases local transparency and accountability further by giving greater force to the *Code of Recommended Practice on Local Authority Publicity* where necessary. Some local authorities choose not to follow the recommendations in the Publicity Code and spend taxpayers' money on publicity for political purposes.
25. In addition, the Bill extends the power of local taxpayers to veto excessive council tax increases, by taking account of any change in levies paid out to external bodies. The Bill makes an amendment to existing council tax referendums legislation which has already proved successful in increasing the transparency and accountability of public bodies for their tax-raising and spending decisions.
26. Currently, when calculating the percentage by which a local authority's average (Band D) council tax has increased, any levies paid by the authority to an external body are ignored. Levying bodies are organisations such as Waste Disposal Authorities, Integrated Transport Authorities, Pension Authorities and Internal Drainage Boards. 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.

27. Local authorities and their levying bodies have shown that they can work together to cut costs and improve services. The Bill will ensure those savings are passed on to local taxpayers or can be invested in local growth.
28. Finally, the Bill also allows the continuation of the National Fraud Initiative, a very successful programme which has helped to identify over £1 billion of fraud, overpayment and error since 1996. The Bill transfers the powers required to run the National Fraud Initiative to government. These are largely the same as the provisions inserted into the Audit Commission Act by the Serious Crime Act 2007.

## What is audit and why is it important?

29. An audit is the review of an organisation's financial statements. It is carried out by a qualified, independent person who gives an opinion on whether those statements have been prepared in accordance with the specified requirements. Auditors of local public bodies also provide opinions on other aspects of the bodies' expenditure – such as arrangements for securing value for money, or whether the organisation's income and expenditure has been applied as intended by Parliament
30. Local audit is an essential tool for giving assurance that bodies are spending public money efficiently and effectively. The Audit Commission currently audits around 11,000 local public bodies. These bodies are, all together, responsible for around £200 billion of public expenditure.
31. The audit of public bodies plays a key role in ensuring that people who handle public money are held responsible for its use. Regular audit also provides a way of showing that public bodies have good arrangements in place to manage their finances properly and deliver value for money.

## Which bodies does the Bill apply to?

32. The 11,000 local public bodies currently audited by the Audit Commission are, together, responsible for some £200 billion of public expenditure. In addition, there are roughly 10,000 'smaller bodies', with annual turnover below £6.5 million, made up of around 9,600 parish and town councils; 130 internal drainage boards; and 270 other bodies (for example, charter trustees and port health authorities).
33. The Local Audit and Accountability Bill will apply to a range of local public bodies including county and district councils, fire and rescue authorities and clinical commissioning groups. A full list of these is at Schedule 2 of the Bill.
34. The new framework will retain a proportionate audit regime for smaller authorities (those with a turnover below £6.5 million). This will include exempting those authorities with an annual turnover below £25,000 from automatic external audit.

## Who will monitor the new framework?

35. The Bill creates a new framework to regulate auditors of local public bodies. This is similar to the arrangements for companies.
36. The Audit Commission currently has a number of responsibilities for regulating local audit which will transfer to other bodies:
  - a. the **National Audit Office** will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions.
  - b. **recognised supervisory bodies** (accountancy professional bodies) will register audit firms and auditors. They will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors and also the qualifications, experience and criteria that individuals will need to have to sign an audit report. They will also monitor and enforce audit standards. This will all be supervised by the **Financial Reporting Council**. This mirrors the arrangements under the Companies Act 2006.

## What does this all mean for me?

37. Better public audit means better use of public money. In total, the programme of reforms to local audit will deliver estimated savings of £1.2 billion over a ten year period. The measures in the Bill will also help local people to hold their councils and other local public bodies to account for local spending decisions.
38. To complement this measure, the Bill will protect the rights of taxpayers to inspect the accounts and raise objections if they think there are matters on which the auditor should report, ensuring that local people can continue to use this mechanism to hold their local bodies to account.
39. The measures in the Bill will also drive more direct democracy on council tax by extending council tax referendum provisions. The Bill will ensure that local taxpayers can veto excessive council tax increases caused by changes in levies paid to bodies such as Waste Disposal Authorities, Integrated Transport Authorities, Pension Authorities and Internal Drainage Boards.
40. Healthy local democracy requires robust scrutiny by an independent local press. The Bill will enable the Secretary of State to direct compliance with the existing *Code of Recommended Practice on Local Authority Publicity*.

# How can I find out more about the Bill?

41. This document is designed to give an overview only. You can read the Bill<sup>1</sup> and its explanatory notes<sup>2</sup> in full, and follow its progress through Parliament, on the Parliament website<sup>3</sup>.

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<sup>1</sup> Local Audit and Accountability Bill - <http://www.publications.parliament.uk/pa/bills/lbill/2013-2014/0004/2014004.pdf>

<sup>2</sup> Local Audit and Accountability Bill: Explanatory Notes - <http://www.publications.parliament.uk/pa/bills/lbill/2013-2014/0004/en/2014004en.pdf>

<sup>3</sup> Local Audit and Accountability Bill: Progress of the Bill - <http://services.parliament.uk/bills/2013-14/localauditandaccountability.html>