



Department for
Communities and
Local Government

Changes to the smaller authorities' local audit and accountability framework: a guide



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1. Introduction and context

Aim of this guide

This guide aims to help smaller authorities officials in England to understand how the changes introduced by the Local Audit and Accountability Act 2014 (the Act) and new Regulations will affect them. It offers a less technical explanation of the changes and describes the key requirements of the new audit regime for smaller authorities. However, as a working guide, it assumes a basic knowledge of local authority finance and financial procedures.

It explains what public accountability means for smaller authorities and what happens after the Audit Commission closes. It sets out what smaller authorities need to do from 1 April 2015 and what will change from 1 April 2017. For further information, a list of the legislation and other relevant guidance can be found in Appendix 2 at the end of this guide.

This guide is not explicitly aimed at the general public. However they will have an interest in how accountability and transparency will be strengthened as a result of the Government's changes.

Background

The Local Audit and Accountability Act 2014 (the Act) closes the Audit Commission and establishes new arrangements for the accountability and audit of local public bodies in England.

Local public bodies include smaller authorities such as parish councils, parish meetings and internal drainage boards. A smaller authority is an authority that has gross annual income or expenditure (turnover) below £6.5 million, including those 'exempt authorities' with a turnover below £25,000.

What is public accountability?

The Act builds on the general principle that all local public bodies, regardless of size, must account for all the money they receive and spend, wherever it comes from. Local taxpayers expect local public bodies to be open and transparent about how they have handled public money, as these bodies are always accountable to the communities they serve.

Terms used in the guide

The Government's policy is that smaller authorities' annual accounts are subject to an "assurance review", which involves the auditor issuing a report on the annual return prepared by the authority, rather than full annual audit. This approach is

proportionate to the amounts of public money that smaller authorities handle. It also continues the existing practice of how audit firms provide assurance on smaller bodies.

Details of what is covered in an assurance review and how auditors of smaller authorities should meet their responsibilities are set out in the guidance which accompanies the Code of Audit Practice.

In this guide smaller authorities with an annual turnover below £25,000 - that will be exempt from the requirement to have a routine annual assurance review under the new regime - are referred to as 'exempt authorities.' Smaller authorities with an annual turnover above £25,000 - that will be 'non-exempt' from this requirement and must still have a routine annual assurance review - are referred to as 'non-exempt authorities.'

Smaller authorities can also chose to voluntarily have a full external audit which increases accountability further. This option will remain under the new regime.

Overview of the new legislative framework

The new legislation replaces the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011.

The Act will be supported by a number of sets of Regulations, as well as the Transparency Code for smaller authorities and the Code of Audit Practice. The main sets of Regulations of significance to smaller authorities are shown in the diagram below.



The changes introduced by the new legislative framework will happen in two stages. The first stage starts on 1 April 2015 and applies to the 2015/16 and 2016/17 financial years. The second stage is currently expected to start on 1 April 2017 and apply to all financial years from 2017/18 onwards¹.

This guidance addresses what smaller authorities will have to do during each of the two stages.

What happens after the Audit Commission closes?

Initially, very little will change for smaller authorities.

The Audit Commission will close on 31 March 2015. From 1 April 2015, responsibility for making auditor appointments and setting audit fees will transfer to a new company, Public Sector Audit Appointments Limited. This new company will undertake these functions until the current contracts with audit firms expire – currently expected to be after the completion of the 2016/17 audits. Some Audit Commission staff will transfer to the new company to ensure continuity.

Smaller authorities will keep the external auditor appointed by the Audit Commission until the 2016/17 audit process has been completed.

As of 1 April 2015, the Comptroller and Auditor General² is responsible for publishing the Code of Audit Practice and for issuing guidance to auditors. The new Code of Audit Practice will take effect for the 2015/16 accounts onwards. Auditors' work on 2014/15 annual accounts will be conducted under the Audit Commission's existing Code of Audit Practice. The National Audit Office will also prepare, update and publish *Council Accounts: a guide to your rights*, which explains how local residents and electors can exercise their legal rights in respect of the accounts.

¹ The current audit contracts are set to expire in 2017.

² In practice, the National Audit Office will undertake the day to day operational activities associated with the Code of Audit Practice on the Comptroller and Auditor General's behalf.

2. What do smaller authorities (both ‘exempt’ and ‘non-exempt’) need to do from 1 April 2015?

There are limited changes for smaller authorities from 1 April 2015. All smaller authorities will continue to prepare annual accounts in the form of an annual return.

The annual return must be completed in accordance with proper practices. Proper practices are set out in the Practitioners’ Guides which are published jointly by the National Association of Local Councils (NALC) and the Society of Local Council Clerks (SLCC), for parish councils, and by the Association of Drainage Authorities (ADA) for Internal Drainage Boards. Other smaller authorities may follow the Practitioners Guide that best suits their needs.

There are no changes to the requirement for smaller authorities to have an internal audit. The Practitioners’ Guides provide guidance on internal control, internal audit and other good governance arrangements.

For 2014/5, 2015/16 and 2016/17, the annual return will continue to be audited by the external auditor appointed by the Audit Commission.

Exercise of public rights

From 1 April 2015, there will be changes to the way smaller authorities support local electors in the exercise of their rights in relation to the accounts. For the accounts of 2014/15, nothing changes and the auditor will call the audit and set the dates for public inspection of the accounts in the usual way.

However, for the 2015/16 financial year and beyond it is the Responsible Financial Officer of each smaller authority who must set the commencement date for the exercise of public rights, rather than the auditor.

From the commencement date set by the Responsible Financial Officer, and for a single period of 30 working days, the accounts can be inspected. During this period electors can ask questions of the auditor or make an objection. Any question or objection must be raised within the 30 day inspection period. This is a change from the current arrangements where the period for the exercise of public rights follows the inspection period.

The Responsible Financial Officer will be able to exercise some discretion in setting the 30 day period. However, whatever period the officer sets it must include a common inspection period - during which the accounts of all smaller authorities must be simultaneously available for public inspection - of the first 10 working days

(consecutive days excluding Saturdays, Sundays and bank holidays) of the July following the financial year to which the accounts relate. These changes are set out in the new Accounts and Audit Regulations.

Transparency Code for smaller authorities

A further change is that from 1 April 2015 smaller authorities with annual turnover below £25,000 will be subject to the requirements of a new Transparency Code for smaller authorities. Parish meetings where there is no parish council are exempt from the requirements of the Code.

The Transparency Code for smaller authorities was issued as recommended practice in December 2014 and following legislation will become mandatory on 1 April 2015. The Code requires the following information, relating to the authority and the previous financial year, to be published annually. This should be published on the first occasion by 1 July 2015 and in each subsequent year no later than 1 July:

- all items of expenditure above £100;
- end of year accounts, annual governance statement, and internal audit report (as contained in the annual return). The end of year accounts should be accompanied by:
 - a copy of the bank reconciliation for the relevant financial year;
 - an explanation of any significant variances (e.g. more than 10-15%, in line with proper practices) in the statement of accounts for the relevant year and previous year; and
 - an explanation of any differences between 'balances carried forward' and 'total cash and short term investments', if applicable.
- a list of councillor or member responsibilities; and
- details of public land and building assets owned by the smaller authority (except internal drainage boards and charter trustees).

The Code also requires the following information to be published more frequently than once annually:

- The draft minutes from all formal meetings (i.e. full council or board, committee and sub-committee meetings) should be published not later than one month after the meeting has taken place.
- Meeting agendas and associated meeting papers should be published not later than three clear days before the meeting is taking place.

All the information must be published on a website, which is publicly accessible and free of charge to view.

3. What will change for smaller authorities from 1 April 2017?

Appointing an external auditor

For the financial year starting on 1 April 2017, smaller authorities will be responsible for appointing their own external auditor. Each year the appointment must be made by the 31 December before the start of the audited year in April. So, by 31 December 2016, smaller authorities must have appointed an external auditor to undertake an assurance review of the 2017/18 accounts.

To help smaller authorities find and appoint an auditor, the Secretary of State can specify a new body that will have powers to appoint auditors and set audit fees for smaller authorities. Any appointing body will make arrangements to appoint an auditor to all smaller authorities unless they decide to actively opt-out and make the appointment themselves. Any appointing body will contact all smaller authorities during 2015/2016 to advise them of the process for making auditor appointments and to explain their options. It is anticipated that representatives from the sector will bring forward a proposal to undertake this role as a 'Sector Led Body' to provide bulk procurement services.

A change from the 2017/18 financial year is that smaller authorities whose annual turnover is below the £25,000 threshold will, in most circumstances, be exempt from undergoing a routine annual assurance review. They will continue to meet requirements set out in the Transparency Code for smaller authorities in place of this requirement, as part of a more proportionate regime.

Smaller authorities below the £25,000 threshold ('exempt' authorities)

Instead of having an annual assurance review, exempt smaller authorities will only need to comply with the publication requirements of the Transparency Code for smaller authorities. However an auditor must be available to deal any question or objection made by an elector to the accounts.

Exempt authorities that decide to use any appointing body's arrangements will not have to have an auditor appointed automatically, unless an elector wishes to ask the auditor a question or make an objection to the accounts. In these circumstances, the local elector will have to contact the appointing body who will then assign an auditor to deal with the question or objection. If the authority's turnover rises above £25,000 during the year it must tell the appointing body and the appointing body will appoint an auditor for that year.

Exempt authorities that opt out of the appointing body's arrangements will be required to appoint their own auditor as if they were not exempt. The auditor of an exempt authority will not undertake an annual assurance review of the accounts but

will need to be available to deal with questions or objections from local electors about the accounts.

Smaller authorities above the £25,000 threshold ('non-exempt' authorities)

Smaller authorities above the £25,000 threshold are required to have a routine annual assurance review of the annual return. These authorities can use the appointing body's auditor appointment arrangements or can opt out and make their own arrangements.

Smaller authorities (exempt and non-exempt) that choose to opt out of the appointing body's arrangements have to:

- take the decision at full council;
- notify the appointing body of their decision by a set deadline;
- establish an independent auditor panel to advise on the appointment of the auditor; and
- procure an auditor either alone or collectively with others.

Non-exempt smaller authorities that use the appointing body's arrangements will not need to establish an independent auditor panel and will have an auditor appointed for them.

Appendix 1

Commencement schedule – Key Dates

What?	When?
Transparency Code for smaller authorities issued as 'recommended practice'	December 2014
Transparency Code for smaller authorities becomes mandatory	1 April 2015
Audit Commission closure	31 March 2015
Transitional period	From financial year 2015/16
Public Sector Audit Appointments Limited - takes over management of former Audit Commission contracts	1 April 2015
New Code of Audit Practice	1 April 2015
Responsible Financial Officer to set commencement date for exercise of electors' rights	For 2015/16 Annual Return
First 'common inspection period'	1 July 2016 to 14 July 2016
Earliest commencement date of 30 working day inspection period (for 2015/16 accounts)	9 June 2016
Latest commencement date of 30 working day inspection period (for 2015/16 accounts)	1 July 2016
Local appointment	From financial year 2017/18
Determination of 'opt in' or 'opt out' from appointing body arrangements	By the closing date set by the appointing body (during 2015/16)
Appointment of auditor for 2017/18 by appointing body	By 31 December 2016
Appointment of auditor for 2017/18 by exempt bodies opting out of appointing body arrangements	By 31 December 2016

Appendix 2

List of relevant legislation and guidance

Regulations

The Local Audit and Accountability Act 2014

The Accounts and Audit (England) Regulations 2015

The Local Audit (Smaller Authorities) Regulations 2015

Local Government (Transparency) (Descriptions of Information) Order 2015

Smaller Authorities (Transparency Requirements) Regulations 2015

The Local Audit (Auditor Panel) Regulations 2014

The Local Audit (Auditor Panel Independence) Regulations 2014

The Local Audit (Appointing Person) Regulations 2015

The Local Audit (Resignation and Removal) Regulations 2014

Guidance

Transparency Code for smaller authorities 2014 -

http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf

Code of Audit Practice – Comptroller and Auditor General

Council accounts - A guide to your rights – National Audit Office (NAO)

Joint Practitioners' Advisory Group, Governance and Accountability in Local Councils: A Practitioner's Guide (England) 2014

Joint Practitioners' Advisory Group, Governance and Accountability in Internal Drainage Boards: A Practitioner's Guide 2007

Useful websites

Public Sector Audit Appointments Limited

National Audit Office: www.nao.org.uk

National Association of Local Councils (NALC): www.nalc.gov.uk

Society of Local Council Clerks (SLCC): www.slcc.co.uk

Association of Drainage Authorities (ADA): www.ada.org.uk