

## PORTFOLIO HOLDER DECISION – JUNE 2011

### FUTURE OF LOCAL PUBLIC AUDIT CONSULTATION

Report of the: Deputy Chief Executive and Director of Corporate Resources

Status: For Decision

---

**Executive Summary:** This report summarises the Governments proposals for a Future of Local Public Audit after their announcement to abolish the Audit Commission. The Appendix to this report sets out the Council's response to Governments consultation on the matter for Portfolio Holders consideration and approval.

---

**This report supports the Key Aim of Corporate Performance Plan “Effective Management of Council Resources”**

---

**Portfolio Holder** Cllr. Ramsay (Finance and Value for Money)

---

**Recommendation:** It be RESOLVED that the Portfolio Holder for Finance and Value for Money approve the Council's response to the Future of Local Public Audit consultation.

---

#### 1. Introduction

- 1.1 On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework.
- 1.2 The Secretary of State was clear that a new decentralised audit regime would be established and local authorities would be free to appoint their own independent external auditors within a statutory framework where safeguards would be developed to ensure independence, competence and quality.
- 1.3. The Government has set out its proposals for a new local audit framework in a consultation paper. The proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, accountancy professional bodies, local government, other local public bodies and Government departments with an interest.
- 1.4. The Consultation is now seeking the views of individual Councils and other interested stake holders until 30 June 2011.

## 2. Design Principles

- 2.1 The Government have set out four design principles on which their suggested local public audit framework are based. These are:
- **Localism & Decentralisation** – authorities appointing their own auditors from a more competitive and open market;
  - **Transparency** – results of audit work to be easily accessible to the public;
  - **Lower audit fees** – reduction in the overall cost of audit; and
  - **High standards of auditing** – effective and transparent regulation of public audit
- 2.2 Government recognise that these principles are not wholly independent and aim to find the right balance for an effective, robust, quality and cost effective audit for local public bodies.
- 2.3 Government have also taken in to account the principles of local public audit, established in 1998 by the Public Audit Forum. These are:
- Independence of public sector auditors from the organisations being audited;
  - The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money; and
  - The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.

## 3. Regulatory Framework

- 3.1 The table below shows the bodies the Government propose to be involved in regulating the future local public audit framework and the roles they will play.

Regulatory Body	Role
National Audit Office	Publish Codes of Audit Practice
Parliament	Approve Codes of Audit Practice
Financial Reporting Council	The 'Overall Regulator' would: <ul style="list-style-type: none"><li>• Oversee Accountancy Professional Bodies</li></ul>
Accountancy Professional Bodies (e.g. ICAEW, ICAS)	'Recognised supervisory bodies' would: <ul style="list-style-type: none"><li>• Register Audit Firms and Auditors to undertake Public Audit to the standards of published codes</li><li>• Monitor and enforce local public audit standards</li></ul>
Local Authorities	Appoint their own auditors at Full Council Meetings Set up independent Audit Committees to, amongst other roles, provide advice on the appointment of external auditors

Independent Audit Committees	Provide advice on the appointment of external auditors to Full Council (Other powers may be legislated for)
------------------------------	--

#### **4. Procuring Local Public Audit**

- 4.1 Within the regulatory framework set out above the key proposals for engaging an external auditor are:
- a. Establishing an independent Audit Committee, with an independent chair and vice-chair to guide the authority on its choice of external auditor and to monitor its performance. It is recommended that a third of the members of the Committee are independent.
  - b. An expectation that the public be able to give an opinion when external auditors are being selected. The proposal is that expressions of interest are required and made available for public scrutiny and feedback. Any feedback to be considered by the Audit Committee when evaluating formal tenders.
  - c. Procurement of external audit services will occur every 5 years, but appointment will be reaffirmed annually within that period by full council (on advice of the independent audit committee). One firm can provide the service for a maximum of two five year periods i.e. 10 years.
  - d. Arrangements will exist for the removal of an external auditor within a contracted period. Arrangements will also exist for an external auditor to resign, although this is only expected to be invoked in exceptional circumstances.
  - e. Provisions are made to allow contracted auditors to continue to provide non-audit services to the local authorities. Safeguards will be put in place to ensure independence of the audit service.

#### **5. Scope of future local public audit**

- 5.1 The consultation document leans towards future local public audit providing a conclusion on value for money and the achievement of economy, efficiency and effectiveness (the 3 E's) in addition to an opinion on the financial statements.
- 5.2 However, Government recognise that having such a broad scope would increase the work required and therefore the fee charged. To moderate this Government propose to legislate for local authorities to produce an Annual Report, as is required in the private sector and of large public sector bodies.
- 5.3 If this approach is adopted the scope of external audit would be to:
- Give an opinion on the financial statements;
  - Review the audited body's Annual Report; and

- Provide reasonable assurance on the Annual Report.
- 5.4 The consultation paper does not provide any proposals for the future of:
- Grant Certification;
  - Future operation of the National Fraud Initiative;
  - Reporting on Whole of Government Accounts; nor
  - The future of the Audit Commissions in-house audit practice.

Proposals on these areas will be set out in the forthcoming draft bill and consulted on at that time.

## **6. Sevenoaks District Council Consultation Response**

- 6.1 The Government proposals will have a significant impact on the future governance of the Council and it is therefore recommended that a full and robust response is given to the consultation document.
- 6.2 The Councils consultation response is attached at Appendix 1 for Portfolio Holder consideration and approval.

### **Key Implications**

#### Financial

- 7 The provision of external audit services currently costs the Council approximately £90,000 per annum. Current Government proposals allow for local procurement of external audit services and potential for these costs to be reduced. However proposals to create an Independent Audit Committee are likely to create new financial costs.

#### Community Impact and Outcomes

- 8 Reliable, independent external audit of the Councils financial statements and an assessment of value for money provides the community with assurance that the Council is being properly financially managed.

#### Legal, Human Rights etc.

- 9 The requirement for an external audit of the Council's financial statements, in accordance with guidance approved by Parliament, is a legal requirement.

#### Resource (non-financial)

- 10 Preparation of financial statements and supporting the external audit process requires significant staff resources. The current Government proposals aim to reduce this burden. However proposals to create an Independent Audit Committee would create an additional burden on the Council.

#### Value For Money

- 11 Government proposals for the local procurement of external audit services provides the Council with an opportunity to seek improved value for money from the service. An assessment of the Council's delivery of value for money will continue to be an element of the local public audit framework.

### **Conclusions**

- 12 The Government have set out proposals to abolish the Audit Commission and allow local authorities to procure their own external auditors. The Council has drafted a response to the consultation that will have a significant impact on the future governance of the Council for Members consideration and approval.

### **Risk Assessment Statement**

- 13 The proposals to abolish the Audit Commission and allow local authorities to procure their own external auditors transfers risk from central government to local government. However within this there are opportunities to reduce cost and improve the value for money delivered from the external audit service.

### **Sources of Information:**

Future of Local Government Audit Consultation Paper, CLG website:

<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

### **Contact Officer(s):**

Lee Banks, Policy and Performance Manager. Ext 7161

**Dr. Pav Ramewal**

**Deputy Chief Executive and Director of Corporate Resources**