

**Open Report on behalf of Pete Moore, Executive Director  
Resources and Community Safety**

Report to:	<b>Audit Committee</b>
Date:	<b>13 June 2011</b>
Subject:	<b>Consultation on the Future of Public Audit</b>

**Summary:**

This Report provides the Committee with the opportunity to comment upon a consultation exercise being undertaken by the Department for Communities and Local Government on the future arrangements for the provision of external audit in the public sector given the current Government's intention to abolish the Audit Commission.

**Recommendation(s):**

That the Committee delegates authority to the Director of Resources & Community Safety to respond to this consultation exercise in consultation with the Chairman and Vice Chairman of this Committee and the Executive Councillor for Finance & HR.

**Background**

- 1.1 The Secretary of State for Communities & Local Government announced his intention to abolish the Audit Commission in a statement in August 2010. A consultation exercise, closing on 30<sup>th</sup> June 2011, has now been launched to propose a new regime for public sector external audit.
- 1.2 The consultation comments upon the current arrangements as follows:
 

*'The current arrangements for local audit, whereby a single organisation – the Audit Commission – is regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Audit Commission has increased the professionalism and quality of local government audit, but, it has also become too focused on reporting to Central Government and supporting the previous era of a target driven Government.'*
- 1.3 The new arrangements are based upon the following four design principles:
  - o Localism and decentralisation – freeing authorities to appoint their own external auditors from a competitive marketplace.

- Transparency – ensuring results of audit work are more accessible with local people participating in the process.
  - Lower fees
  - Higher standards of work
- 1.4 The consultation proposals are summarised below with the full document attached as Appendix A.
- Responsibility for maintaining Audit Codes of Practice would transfer from the Commission to the National Audit Office.
  - The regulatory function for public sector auditors would transfer from the Commission to the Financial Reporting Council.
  - External auditors should be supervised by the relevant professional (accountancy) bodies who would register and monitor the work of appointed auditors.
  - External auditors should be appointed, following a competitive tender exercise, by full Council upon receipt of recommendations from the Audit Committee with opportunities for the electorate to have an input. Joint tender exercises, joint appointments and joint Audit Committees are acceptable. New Audit Committees should have the following characteristics:
    - The Chair and Vice-Chair should be independent of the body.
    - Elected members on the Committee should be non-executive members sourced from the body with at least one having relevant financial experience (ideally a third of the whole Committee should have such experience).
    - There should be a majority of independent members on the Committee.
    - The role of the Committee will be spelt out in detail to include performance appraisal of the external auditor, reporting findings to full Council.
  - The wider public to be consulted pre and post appointment to identify potential conflicts of interest, for example.
  - Appointments to be for five year terms with potential renewal for a further five years after that. Compulsory change of auditor after ten years.
  - An expanded opinion as an output from the external audit process proposed to include the following in addition to the true and fair view on the financial statements:

- Regularity & propriety – a conclusion on compliance with relevant laws and regulations and the governance and control regime.
  - Financial resilience – a conclusion on future financial sustainability.
  - Value for money – proper arrangements in place AND actual achievement of value for money.
- Public interest reports concept to continue.
  - External auditors can still do other non-audit work but safeguards to be developed.
  - Minded to withdraw the right of the public to object to the accounts given the existence of Freedom of Information, Data Protection and transparency provisions. The public can still ask questions of the auditor and make representations to them.
  - Matters such as grant claim certification and National Fraud Initiative will remain but how they will be delivered yet to be resolved. Similarly whether the Commission's audit provider arm, the District Audit Service, will be allowed to float off into the private sector is still under consideration.
- 1.5 Members are asked to consider the proposals and indicate the issues they would wish to incorporate in a response to the CLG. A list of the potential key issues to consider is given below:
- Are the four design principles noted at 1.3 above the right ones?
  - Are the proposed transfers of the Commission's roles in maintaining codes of audit practice and as regulator to the National Audit Office and the Financial Reporting Council sensible?
  - Is open market competitive tender the right way to recruit external auditors?
  - Should external auditors be appointed by full Council upon receipt of a report from the Audit Committee?
  - Is the proposed dominance of independent members on the Audit Committee the right approach?
  - Is there a real role for the wider public in the appointment process and ongoing monitoring of the external auditor?
  - Is the proposed restriction on the term of office for an appointed external auditor the right one?

- Is the expanded remit of the auditor sensible and compatible with a cost reduction objective?
- Is their merit in the proposal to withdraw the right for a member of the public to raise an objection to the financial statements of a local authority?
- Should the Government be encouraged to allow the District Audit Service to effectively transfer out of the public sector and become a direct player in the market for public sector external audit?

1.6 Given the proposals have a wider impact within the Council than just the Audit Committee it is suggested that the Executive Councillor for Finance & HR been invited to contribute to the response. The final draft response can be drafted by the Director of Resources and Community Safety in consultation with that individual and the Chairman/Vice Chairman of this Committee.

## Conclusion

2.1 The nature and basis of external audit in the public sector is scheduled to change fundamentally in the next few years following the abolition of the Audit Commission. It is important that the views of this Committee are made known to Government on this important issue..

## Consultation

### a) Policy Proofing Actions Required

Not applicable

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Future of Local Public Audit Consultation - Dept. for Communities & Local Government March 2011

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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