

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

Report to:	Audit Committee
Date:	30 January 2012
Subject:	Future of Local Public Audit - Update

Summary:

This report provides an update on the future of local public audit.

Recommendation(s):

That the Committee notes the contents of the report and identifies any actions it requires.

Background

1. On the 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of its in-house practice into the private sector and put in place a new local audit framework. Local Authorities would be free to appoint their own independent local auditors.
2. In March 2011, the Government published the 'Future of local public audit' consultation paper seeking views on plans for how the new local framework would work.
3. Attached in Appendices A & B are the summary of responses to this consultation. The key points are detailed below, together with other relevant information.

Current Arrangements

4. New contracts will be awarded for three or five years, commencing from the audit of the accounts for 2012/13. This means we will not be in a position to make the new auditor appointments before 1 September 2012.
5. As an auditor must be in place at the start of the financial year, to deal with any issues relating to the 2012/13 accounts, it is proposed that our current auditor's appointment is extended to cover the period from 1 April 2012 to 31 August 2012.

6. This will help keep any disruption to a minimum.
7. The Executive Director – Resources and Community Safety has agreed to this proposal.

Future auditor appointment

8. The award of contracts will be in spring 2012 and we will be consulted on the appointment of the new auditor. There will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events are likely to take place in May 2012.

Future of local public audit – summary of consultation responses

9. Appendices A & B provides the Committee with the full response documents – the key points are provided below:

Regulation of local public audit

§ National Audit Office is seen as best placed to produce the Code of audit practice and supporting guidance.

§ The **Financial Reporting Council** will be the overall regulator, mirroring its role under the Companies Act 2006. Some adaptation will be required for it to work for public bodies.

§ Mirroring the Companies Act 2006, Recognised Supervisory Bodies will:

- have the roles of registration, monitoring and discipline for local public audit
- put in place rules and practices covering eligibility of firms to undertake local public audit; and
- keep a register of firms eligible to undertake local public audit.

Monitoring and Enforcement

§ As under the Companies Act 2006, Recognised Supervisory Bodies will monitor the quality of audits undertaken by their member firms, and investigate complaints, disciplinary cases and issues identified during the monitoring of firms on the register of local public auditors.

§ There were various views on how to ensure firms have the right level of experience whilst allowing new firms to enter the market. Firms should be able to demonstrate a proven track record, the ability to deliver and meet high level eligibility criteria

Commission local public audit services

§ Arrangements will be put in place to allow flexibility for joint appointments

§ Local public bodies will have a duty to appoint an auditor from the register of local public auditors, on the advice of an Independent Auditor Appointment Panel

- § The Independent Audit Appointment Panel will have an independent chair and a majority of independent members. It is still unclear how this will operate in practice.
- § Local public bodies will be required to run a procurement exercise for its audit services at least every five years

Structure and role of Audit Committees

- § Consultation document advocated 'independent' persons should make up the membership of the Audit Committee. Many respondents queried this particularly around capability, sourcing independent members and having overall skills to perform the audit committee function – which was seen as important.
- § As stated the proposal is to have a statutory Independent Audit Appointment Panel set up – it is still unclear how this will operate in practice.
- § There were mixed responses on the role of the audit committee – Some thought that 'must do' areas should be set out in legislation and other areas that should be left to local discretion. More clarity is required on the role and remit of Audit Committees and appointment panels.

Scope of Audit and work of auditors

- § The scope of local public audit will remain broadly similar. As now, auditors will be required audit our accounts and provide an VfM opinion on our arrangements for securing economy, efficiency and effectiveness in our use of resources
- § *Public Interest Reporting:* The duty for auditors of local public bodies to undertake Public Interest Reporting will be retained, as will their ability to charge audited bodies for reasonable work. Public Interest Reports will need to be published.
- § *Public interest disclosure:* The auditor and the Independent Auditor Appointment Panel will be defined as designated persons under the Public Interest Disclosure Act, to enable individuals to make disclosures under the Act.
- § It was felt auditors should be able to provide non-audit services as per current ethical guidelines
- § *Transparency:* The new framework will retain the rights of local electors to make formal objections to the accounts, but give auditors greater discretion regarding whether to pursue an objection.
- § *National Fraud Initiative:* Government proposes to continue the National Fraud Initiative, and is discussing with partners and the local public sector about how best to achieve this
- § *VfM studies regarding the local public sector:* The Government considers that there is scope for rationalisation in the number of these value for money studies compared to the number previously undertaken and would like to see a coherent and complementary programme of offerings across all providers.

Next Steps

10. In summary these are to:

- § Government to do some further work with smaller bodies and their representatives on the audit arrangements for smaller bodies, to explore options for these bodies before firming up proposals, and setting out the preferred approach in Spring 2012;
- § Government to hold further discussions with local authorities, other local public bodies and the audit sector to flesh out the underlying detail of the framework, and how it might be implemented;
- § Government to publish a draft Bill for pre-legislative scrutiny in Spring 2012, which allows for examination and amendments to be made before formal introduction to Parliament; and in advance of introduction of an Audit Bill.

Conclusion

11. The development of the new framework for local public audit is still ongoing. The role and remit of our existing Audit Committee will change as a result and we therefore need to be fully engaged in the next stages of the publication of the Draft Bill, impact assessment and the appointment process.

Consultation

a) Policy Proofing Actions Required

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	Department of Communities and Local Government - Summary of consultation responses
Appendix B	Government response to the future of local audit consultation

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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