

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

20 June 2011

Report of the Director of Finance

Part 1- Public

Delegated

1 FUTURE OF LOCAL PUBLIC AUDIT CONSULTATION PAPER

The Department for Communities and Local Government recently published a consultation paper entitled 'Future of local public audit'. This report outlines the main proposals set out in the consultation paper. Also attached to the report for endorsement is a draft response to the questions asked in the consultation paper.

1.1 Introduction

1.1.1 On the 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, and refocus audit of local public bodies on helping people hold those bodies to account for local spending decisions. The aim is to replace the current, centralised audit systems managed by the Audit Commission, with a new decentralised regime, which will support local democratic accountability, and one that will also cut bureaucracy and costs, while ensuring that there continues to be robust local public audit. This consultation paper: "future of local public audit", published on 30 March 2011, sets out proposals on the new audit framework where audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession and local bodies will be free to appoint their own external auditors within stringent safeguards for independence. The document is lengthy (some 65 pages) so rather than reproduce in hard copy, the consultation paper can be found at the following link:

<http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf>

1.1.2 The return date for responses to the consultation paper is 30 June 2011. A copy of our draft response to the consultation paper can be found at **[Annex 1]**.

1.2 Current Arrangements

1.2.1 The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 as amended. Acting as the regulator, the Audit Commission publishes two

statutory Codes of audit practice – one for local government and one for health bodies. The Commission monitors the quality of audit, although the professional accountancy bodies also monitor their members.

1.2.2 Acting as the commissioner, the Audit Commission appoints auditors, either from its in-house practice or from firms contracted to the Commission, to local public bodies. The Audit Commission also acts as the main provider with 70% of local public audits undertaken by its in-house practice.

1.2.3 The Government's view is that current arrangements are inefficient and unnecessarily centralised and drive a culture of compliance. Furthermore, that there is a lack of transparency and clarity as well as potential conflicts of role present in the current arrangements.

1.3 Government's Vision

1.3.1 The Government's vision for local public audit is based on four principles:

- Localism – local public bodies should be free to appoint, subject to appropriate safeguards, their own independent external auditors from a more competitive and open market.
- Transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions.
- Lower audit fees – achieving a reduction in the overall cost of audit.
- High standards of auditing – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit.

1.3.2 In summary the Government's intentions are as follows:

- The National Audit Office to prepare Codes of audit practice, which prescribe the way in which auditors are to carry out their functions. Codes of audit practice will continue to be approved by Parliament.
- Accountancy professional bodies, under the supervision of the Financial Reporting Council, to be responsible for the registration of audit firms, individual auditors able to undertake public audit and for the monitoring and enforcement of audit standards. Essentially, there will be a list (referred to as the register of local public statutory auditors) of audit firms who are recognised as qualified to undertake public audit work.
- Principal local authorities (those with annual income and or expenditure over £6.5m) to appoint their own auditors. The appointment to be made by full Council taking into account the advice from a new independently chaired audit committee. Legislation will allow joint procurement of audit

services and joint audit committees. The auditor would be reappointed annually by the full Council on the advice of the audit committee, but the audited body must undertake a competitive appointment process within five years. The Council can reappoint the existing external auditor for a further five-year period, but must appoint a different auditor at the end of the second five-year period.

- Whilst many councils have an audit committee, there is currently no legal requirement for such a committee and, therefore, no requirements of who should be part of the committee, its roles and responsibilities, etc. The consultation proposes an audit committee with a majority of members independent of the local public body and with some (non-executive, non-cabinet) elected members. This would require us to reconfigure the make up of our existing Audit Committee which is made up of non-executive, non-cabinet elected members only and inevitably will bring with it additional administrative work and cost..
- Whilst local people would retain the right to make representations to the auditor and question them about the accounts, the consultation paper proposes to remove the formal right for local people to raise objections to the accounts. The paper suggests that there are sufficient other routes that local people can take if they have an issue with their council, including the Local Government Ombudsman and the Information Commissioner. It is also proposed that the external audit is brought within the remit of the Freedom of Information Act, but we are not convinced this is necessary.
- Smaller public bodies, e.g. parish councils with annual income and or expenditure below £6.5m would be subject to different audit requirements. The audit requirements are dependent on the one of four bands the level of gross income and or expenditure falls into. The consultation paper makes reference to an Independent Examiner who may or may not need to have a professional qualification and may need to be registered as a public auditor depending on the banding the smaller public body falls into. The consultation paper proposes that the Independent Examiner could be appointed by the County or Unitary Council or the smaller public body themselves appoints such a person via their own audit committee.
- Local bodies will be able to commission additional services from their auditors, e.g. value for money studies.
- Grant certification, the National Fraud Initiative and the Whole of Government Accounts return will continue in some form, but are not part of this consultation.

1.4 Overall Impressions

- 1.4.1 Having discussed this with Management Team colleagues, we are not convinced that the proposals set out in the consultation paper will lead to a reduction in audit fees for many local public bodies which, of course, was one of the 'drivers' for change.
- 1.4.2 In addition, the local audited body would have to undertake a competitive tendering exercise to appoint an auditor (which would most probably be subject to EU tendering rules) involving time, effort and resources and, in turn, additional cost. There could be additional costs associated with the establishment of an audit committee along the lines suggested.
- 1.4.3 Rather than a wholesale change to the current framework I would ask whether if were not more cost-effective to 'rein' in the scope of the work undertaken by the Audit Commission which has already started with, for example, the cessation of the Comprehensive Area Assessment regime and possibly even consider merger of the National Audit Office and Audit Commission. That said, in this respect, I suspect that we are now too far down the line to change course.
- 1.4.4 One of the issues raised through the consultation is the drive to see independent members on the Audit Committee. There are examples in other authorities where this has already worked successfully, but equally there are examples where the opposite is true. In fairness, apart from the skills base, one of the key issues regarding the effectiveness of an independent member is the motivation for wishing to sit on the Committee. I can imagine scenarios where this could be very constructive indeed, but can also envisage scenarios where the Committee might not be able to function as effectively as it might otherwise do because of an individual's own "agenda" and motivation. On balance, I would generally disagree with a requirement for independent membership of the audit committee as I believe it is a decision each Council should be able to make.
- 1.4.5 Another issue which I feel should be brought to Members' attention is the audit of parish councils (see questions 42 – 50). Whilst not specifically raised, some suggestions have been made that internal audit sections of district council, for example, could be the provider of audit services to relevant parish councils at minimal cost. Given the limited resources we now have available to us within internal audit, I would not be supportive of this approach were it to be proposed.

1.5 Legal Implications

- 1.5.1 The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 as amended. Acting as the regulator, the Audit Commission publishes two statutory Codes of audit practice – one for local government and one for health bodies. Codes of audit practice will continue to be approved by Parliament.

1.6 Financial and Value for Money Considerations

- 1.6.1 The requirement to establish an Audit Committee along the lines set out in the consultation paper will bring additional work and cost, as will the competitive appointment process (either individually or jointly) which may well be subject to EU tendering rules and we are not convinced that our audit fees will reduce to cover this additional cost, indeed our fees could increase.

1.7 Risk Assessment

- 1.7.1 There is a risk that any reduction in audit fees, which is also not certain, will not cover the additional costs likely to arise from the proposals.

1.8 Equality Impact Assessment

- 1.8.1 See 'Screening for equality impacts' table at end of report

1.9 Recommendations

- 1.9.1 Members are **RECOMMENDED** to consider the draft response set out at **[Annex 1]**, make any amendments as appropriate, and approve a final draft for submission to Communities and Local Government by the deadline of 30 June 2011.

Background papers:

Nil

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Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	This report outlines the main proposals set out in a consultation paper published by the Department for Communities and Local Government entitled 'Future of local public audit and attached to the report is a draft response to the consultation paper.

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	See above.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		Not applicable.

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.