

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2012

Report of the Director of Finance

Part 1- Public

Matters for Information

1 FUTURE OF LOCAL PUBLIC AUDIT

This is a progress report on the Government's plans to replace the current, centralised audit systems managed by the Audit Commission, with a new decentralised regime.

1.1 Introduction

- 1.1.1 On 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission. The aim is to replace the current, centralised audit systems managed by the Audit Commission with a new decentralised regime where local bodies will be free to appoint their own external auditors.
- 1.1.2 The current arrangements and the Government's vision and intentions were set in a report presented to the meeting of this Committee on 20 June 2011. The report also included our response to the consultation paper setting out the proposals where we made the point, amongst others, that we were not convinced that it would lead to a reduction in audit fees (indeed could see audit fees increase) together with additional costs associated with the establishment of an Audit Committee along the lines suggested.

1.2 Progress Update

- 1.2.1 The Government is pressing ahead with its plans to disband the Audit Commission and the move to a decentralised regime.
- 1.2.2 The Government's response to the consultation was published in early January. The response itself runs to some 37 pages so rather than reproduce in hard copy, the response can be found at the following link:

<http://www.communities.gov.uk/documents/localgovernment/pdf/2060619.pdf>

- 1.2.3 A press release issued by the Audit Commission following publication of the Government's response to the consultation is attached at **[Annex 1]**.
- 1.2.4 The process is to begin with the Audit Commission outsourcing all its in-house local public audit work to the private sector in 2012/13. The contracts are expected to run for three or five years giving local councils and other public bodies the time to plan for appointing their own auditors. It is expected that existing staff will be TUPE transferred to the successful contractor, so it is possible that in the short-term there will be little change to the 'personnel' actually delivering the audit.
- 1.2.5 The Audit Commission will radically reduce in size by the end of 2012/13 as a consequence of outsourcing its audit work. A small residual body will remain to oversee the contracts and make audit appointments.

1.3 Legal Implications

- 1.3.1 The current system for the audit of local 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 practice will continue to be approved by Parliament.

1.4 Financial and Value for Money Considerations

- 1.4.1 The requirement to establish an Audit Committee along the lines set out will bring additional work and cost, as will the competitive appointment process (either individually or jointly) and we are not convinced that our audit fees will reduce to cover the additional cost, indeed our audit fees could increase.

1.5 Risk Assessment

- 1.5.1 There is a risk that any reduction in audit fees, which itself is not certain, will not cover the additional costs likely to arise from the new decentralised regime.
- 1.5.2 There is a risk that the auditors charged with carrying out the audit might not have the same level of knowledge of local government finance as our current auditors and the consequent adverse impact this could have on the audit process.

Background papers:

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Nil

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