



Audit Committee
22 February 2012

**Report from the Director of Finance and
Corporate Services**

For Information

Wards Affected:
ALL

Report Title: Future of Local Public Audit

1. Summary

- 1.1. This report advises members of the proposal by the Audit Commission to appoint an interim auditor to cover the period 1st April 2012 to 31st August 2012. The appointment is necessary to cover the period up to the point when the Audit Commission awards new contracts for the audit of local authorities following the disbanding of the Audit Commission. The report also provides a summary of the government's response to their consultation on the Future of Local Public Audit ¹.

2. Recommendations

- 2.1. The Audit Committee note the appointment of Andrea White as interim auditor for the council for the period 1st April 2012 to 31st August 2012 and the Government's response to the consultation on the Future of Local Public Audit.

3. Detail

- 3.1. In August 2010 the Government announced its intention to disband the Audit Commission and establish a new system of appointing external auditors to local authorities. The intention being that local authorities would be free to appoint their own auditors, within certain parameters, in much the same way as the private sector appoints external auditors.
- 3.2. The Audit Committee has received a number of updates from the Audit Commission with regard to progress on abolition of the Commission and transfer of current external audit work undertaken by District Audit. The most recent update was provided at the Audit Committee meeting on 15th December 2011². This advised that the Commission had issued invitations to tender for the current work of the in-house practice to 13 potential suppliers. These included nine existing accountancy firms, three consortia and a new firm representing the existing in-house service. Tenders were due to be returned by 16th December 2011.

- 3.3. The appointments are to run from the audit of the 2012/13 financial year although the appointments will not be made until 1st September 2012. The Audit Commission has proposed that Andrea White is appointed Interim Auditor for the period 1st April 2012 to 31st August 2012 and has written to the council accordingly³.
- 3.4. This appointment will run until 1st September 2012 by which time the Commission will have selected a new contractor for a three or five year period, covering the 2012/13 accounts onwards. The Commission are yet to decide on the length of appointment which will clearly have implications for the council's timetable on its own procurement of external audit. Should appointments be made for a three year period, the council will need to appoint its own auditors for the 2015/16 financial year. The government intends to legislate for that appointment to be made by 31st December 2014.
- 3.5. In March 2011 the Government issued a consultation on its plans for local public audit¹. The consultation closed on 30th June 2011. Some 450 bodies, mainly local authorities, responded to the consultation. The Government issued its response to the consultation on 4th January 2012. The Government's objectives remain as set out in the original consultation. These are that the new framework will be, *"localist and transparent, and upholds high standards of auditing, where audit remains independent, robust and efficient"*. The Government also believes that audit costs will fall as a result of the framework. The consultation response and proposals have three main headings: Regulation; Appointment and Scope.

Regulation

- 3.6. The Government proposed that the National Audit Office (NAO) be responsible for drafting codes of practice and associated guidance to which auditors will work and that the Financial Reporting Council (FRC) be responsible for registering firms to conduct the work and the existing accountancy bodies will be the recognised Supervisory Bodies (RSB). A high number of respondents agreed with these proposals.
- 3.7. In summary, auditors will need to be registered to conduct public audit, they will need to be suitably qualified and experienced. They will work to a standard set of codes and guidance and be regulated by the existing regulatory bodies, as for the private sector. The FRC will maintain an oversight role to ensure that the RSB's are operating effectively.

Appointment

- 3.8. Most respondents agreed that auditor appointments should be made annually at a full council meeting. However, the Government's proposal that the appointment should be recommended by a new, wholly independent Audit Committee, was not welcomed, given that many already have well established committees. The Government are, therefore, now proposing that appointments will be made based on the advice of an Independent Audit Appointment Panel, independently chaired with a majority of independent members. This can only be the Audit Committee if it is similarly independent.

- 3.9. Appointments will have to be made in the December preceding the next financial year and be for a maximum period of five years. The same firm can be re-appointed up to a maximum of ten consecutive years. There will be appropriate provisions for removal or resignation.
- 3.10. Local authorities will be permitted to jointly procure auditors and to share appointment panels.

Scope

- 3.11. The Government sought views on the breadth of coverage under the new framework, which could range from a narrow true and fair view opinion statement to the full range current work, including value for money studies. Responses were split but with a slight preference to leave the current scope unchanged.
- 3.12. The Government intends to retain the status quo with regard to coverage but will require value for money work to be risk based and evidenced with a focus on local issues. This element of work will be subject to further review by various stakeholders prior to implementation and is an area which the Government had, earlier, signalled its intention to reduce.
- 3.13. External Auditors will retain their public interest reporting duties and they will be given a new discretion to reject vexatious or repeated elector objections to the annual accounts.
- 3.14. Although not subject to consultation, further work will be needed in respect of the Commission's current role concerning the certification of grant claims. The Government recognise that they will need to work with each grant paying department to ensure that assurance mechanisms are appropriate. These may involve a role for appointments under the framework although suggestions are that there will be increased self certification by grant recipients.

Next Steps

- 3.15. The Government has indicated that it will hold further discussions with stakeholders to develop the detailed design of the framework and intend to introduce draft legislation in Spring 2012.
- 3.16. Once the legislation is passed and decisions have been reached on the appointment term for the initial replacement for the Audit Commission contracts in 2012, the council will need to prepare a timetable for the appointment. This will include the establishment of the Independent Audit Appointment Panel (assuming the Audit Committee retains its current non-independent status. Decisions will be needed, at an early stage, as to whether a joint procurement, for example on behalf of West London, would be desirable.

4. Financial Implications

5. Legal Implications

6. Diversity Implications

6.1. None

7. Background Papers

1. Department for Communities and Local Government (2011). *Future of Local Public Audit Consultation*. Retrieved 30th January 2012 from:
<http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf>
2. Audit Commission report to the Audit Committee 15th December 2011. *Progress Report December 2011 London Borough of Brent Audit 2010/11*
3. Audit Commission (2011). *Letter to Chief Executive dated 19th December 2011 regarding Interim Auditor Appointment 2012/13*
4. Department for Communities and Local Government (2012). *Government Response to the Future of Local Public Audit Consultation*. Retrieved 30th January 2012 from:
<http://www.communities.gov.uk/documents/localgovernment/pdf/2060619.pdf>

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