Regulation, Audit and Accounts Committee

19th March 2012

Government response to the future of local audit consultation

Report by Executive Director of Finance & Performance

Executive Summary

This report provides a summary of the government response to the future of local audit consultation and confirms the interim arrangements in place which will be effective from September 2012, lasting for five years.

Recommendation

The Committee is asked to note the report and provide any views on the key issues for future consideration highlighted in section 7 of the report.

1. Introduction

1.1 In January the Department of Communities and Local Government (DCLG) published a document titled “Government response to the future of local audit consultation”. The original consultation document was published in March 2011 and the County’s response was agreed with RAAC at its meeting in June 2011. This report summarises the Government’s response and current intentions.

2. Original Government Proposals

2.1 The Government’s intentions set out in the original consultation paper were as follows:

- Local public bodies, including local councils should be required to appoint their own external auditor rather than one appointed for them as under the present system.

- In local government, the full council would make the appointment, but on the advice of an independent Audit Committee. This Committee would comprise a majority of independent members (i.e. not elected members or serving officers), including the chair and vice-chair roles.

- There would be a national register of audit firms who are capable of undertaking public audit work and individual bodies must appoint their auditor from this register, subject to formal local procurement process.

- The National Audit Office would take responsibility for producing a Code of Audit Practice and supporting guidance for the audit of local public bodies.

- The consultation paper sought views on whether the scope of the external auditor’s work should be altered under the new arrangements.
3. **Summary Results from the Consultation Process & Confirmation of the Interim Arrangements.**

3.1 The Government received 453 responses to the consultation with the majority received from local government and their representative bodies.

3.2 In summary, the consultation process has led the Government to confirm their intentions to legislate along the lines set out in the March consultation paper. The key amendment to the original proposals is that the Government has amended the proposals for an independent Audit Committee. It is still proposed that audit appointments are made by full council on the advice of an independent body now to be titled the Independent Audit Appointment Panel (IAAP). This panel will have limited mandatory duties around providing advice to the local public body on the engagement of the auditor, monitoring audit independence and where an auditor resigns or is removed from office.

3.3 The provisional timetable for publishing a draft bill for pre-legislative scrutiny is spring 2012 with the introduction of a Bill before Parliament “as soon as Parliamentary time allows”.

3.4 As part of the interim arrangements, the Audit Commission has completed a procurement exercise to award external contracts that are to run for five years with the option to extend for a further three years. Contracts have been awarded on a regional basis to commence from September 2012 and the Council’s newly appointed auditors will be Ernst & Young who will cover the South East region.

3.5 The DA partnership set up as a spin-off from the Audit Commission won just one of the available regional contracts and on this basis the partnership will not now launch as an employee-owned independent firm. Instead it becomes a wholly-owned subsidiary of Mazars, trading as Mazars DA. Staff at the Commission’s in-house practice will transfer to the winning bidders on 31 October with a small residual Commission left to oversee the outsourced contracts until the Commission is abolished and contracts transferred under the new arrangements.

3.6 The adoption of a proposed new system of audit will now be from September 2017.

4 **Regulation of local audit**

4.1 The majority of respondents agreed with the Government’s overall approach in respect of regulation and consequently the Government intends to legislate on the following basis:

- The National Audit Office will prepare a Code of Practice which auditors will be required to follow when auditing local bodies.

- The Financial Reporting Council will be the overall regulator for local public auditors and the Secretary of State will be given powers to authorise the professional accountancy bodies to act as Recognised Supervisory Bodies (RSBs). These Bodies will have similar powers as already exist for auditors in the private sector, including registration, monitoring and discipline for local public auditors. RSBs will monitor the quality of audit work and investigate complaints or disciplinary cases. The RSB will only approve someone who is both qualified and experienced to sign audit reports as defined in the detailed response.
5. **Independent Audit Appointment Panels**

5.1 The original proposals around creating an independent Audit Committee to advise the appointment process attracted considerable difference in views from respondents. Concerns were raised at the ability of councils to attract independent members, the necessary skills committee members would require and most particularly the roles and responsibilities of the committee. The amended requirement allows public bodies to maintain their long established arrangements in respect of audit committees.

5.2 The government have signalled their intention to work with the sector to enable the sharing of Independent Audit Appointments and providing guidance on the roles and responsibilities of such panels: in particular, how they will interact with the council’s own Audit Committee.

5.3 As set out in the March consultation, local public bodies will be required to conduct a competitive appointment process within five years and limit an audit firm’s re-appointment to a maximum of 10 years.

6. **Scope of audit and the work of auditors**

6.1 The March consultation paper set out a range of options for the scope of audit work to be carried out by local public auditors. Responses varied with a slight preference for leaving the overall scope of audit work unchanged. The government has therefore decided to keep the wide scope of public audit, but require any value for money element to be “delivered in a more risk based and proportionate way”. The government intends to obtain further input from stakeholders to develop the value for money element of the audit approach before implementation.

6.2 At a subsequent workshop held by the DCLG and NAO where the Council was represented there was a facilitated discussion around three possible scenarios for how local value for money work can best add value to local bodies providing local accountability:

- Status Quo: Audit Commission 2010-11
- Published Information: review of VFM related information published by the local authority
- Tailored: core baseline plus possible additional work based on auditor’s risk assessment and discussion with the local authority.

6.3 There was a clear consensus against the last scenario with a preference for current arrangements i.e. assessing the systems in place for delivering value for money.

7. **Summary of key issues for future consideration**

7.1 Some of the detailed proposals are still to be shaped and the new arrangements will not be active for another five years. It is expected that the County Council will need to consider decisions in the following key areas:

- Sourcing and appointment arrangements for independent members to the Independent Auditor Appointment Panels (IAAPs) including required expertise and skills set. This could be through a joint IAAP with other public bodies.
- The size and representation of the IAAP (note there will be a need for a majority of independent members).
• Appetite for joint procurement of audit services with other public bodies including preference on partners, lead procurement authority and agreed evaluation criteria.

• Terms of reference and lines of responsibility between the role of the IAAP and that of RAAC, given the likely limited scope of the IAAP’s duties.

The Committee will receive a further report once the more detailed legislative proposals have been completed.

8. Resource Implications

8.1 It is likely that there would be some cost in setting up IAAPs. Consideration may need to be given to remunerating independent members, and there will be costs in procuring new audit services. This could be shared with other partners if a joint procurement approach was undertaken.

9. Risk implications

9.1 There are risks associated with the difficulty in recruiting independent members. The procurement process will need very careful oversight to ensure service specification and contract monitoring achieves its purpose without undermining the audit role, set along side the need to achieve value for money.

10. Crime and Disorder Act Implications

10.1 None arising directly from this report.

11. Human Rights Act Implications

11.1 None arising directly from this report.

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Background papers

Future of local audit consultation (DCLG)
Government response to the future of local audit consultation (DCLG)

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