

## **BREIFING NOTE ON THE CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT**

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### **SUMMARY**

This briefing note provides a summary of the key issues contained within the consultation on the future of local public audit and sets out the principles contained within the consultation document issued by the Department for Communities and Local Government (CLG). It sets out proposals for arrangements in relation to the appointment of external auditors and the role of local authority Audit Committees. The consultation runs until 30 June 2011.

### **BACKGROUND INFORMATION**

In launching the consultation, the DCLG stated:

“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 local people hold those bodies to account for local spending decisions, the very essence of localism”.

The current audit regime has operated since the inception of the Audit Commission in 1983 with the Commission acting as regulator, commissioner and provider of local audit services with approximately 70% of local authority audits carried out by its own in-house teams. This is now considered over centralised, lacking transparency, costly and bureaucratic. Proposals for a new audit framework are designed to more closely align with the statutory arrangements, professional ethical and technical standards that currently apply to companies.

The design principles underlying the proposed framework are as follows:-

- **Localism and decentralisation** – enabling public bodies to appoint their own independent external auditors from a more open and competitive 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**

Regard has also been paid to the principles of local public audit, which were codified in 1998 by the Public Audit Forum:

- Independence of public sector auditors from the organisations being audited

- The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money
- The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders

## KEY THEMES AND ISSUES

The key proposals contained within this consultation are detailed below, with the associated issues identified in italics:

- All local public bodies with a turnover of over £6.5m will appoint their own independent (external) auditor  
*As with all council procurement the processes would need to be transparent to avoid the potential for challenge. Additionally the audit market experienced in this field is relatively small which could bring capacity problems or potentially lead to the appointment of inappropriate audit firms.*
- This appointment would be made by full council, taking into account the advice of an independently chaired audit committee, and with an opportunity for the electorate to make an input.
- The National Audit Office would prepare audit codes of practice and prescribe the way in which auditors are to carry out their functions.  
*The NAO already has a role in providing accountability to parliament, but not necessarily locally (to residents).*
- The registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies under the supervision of the Financial Reporting Council and its operating bodies.
- Proposals include changes to the structure of audit committees, with the chair being independent of the local authority. The vice chair would also be independent to allow for possible absence of the chair. A further proposal is that elected members should be non executive and non cabinet members, and the majority of the members of the committee should be independent of the authority (in support of the increased transparency agenda).  
*The availability and costliness of recruiting independent and non executive members with the requisite competence may be problematic. Examples from Charities and the NHS where independent chairs are often paid £20,000 per year demonstrate the potential struggle to recruit the necessary expertise.*
- The audit committee would have responsibility for the engagement of the external auditor and also the monitoring of its independence and quality of work. The committee would advise full council on the appropriate criteria for

engaging an auditor and how these could be weighted. The committee would also be involved in the evaluation of bids.

*Whilst this is an additional duty for the audit committee, the procurement would need to be done in accordance with council Standing Orders and procurement processes and the council would provide the technical expertise in this area.*

- Other proposals are made regarding failure to appoint an external auditor, rotation of audit firms, resignation / removal of auditors and auditor liability.

## **IMPLICATIONS FOR AUDIT COMMITTEE**

As outlined above, the role of the Audit Committee could change through taking on advising Council on the appointment of auditors and also the monitoring of external auditors would be increased.

It is likely that the CLG would want to specify in legislation some responsibilities that the audit committee should have in relation to engagement of an auditor and monitoring the independence and quality of external audit.

The proposals for additional independent members could also affect the membership of the Audit Committee.

## **NEXT STEPS**

The Council is aiming to submit a response to the consultation to comment on some of the issues identified above. Once all the responses have been collated, CLG will publish a summary and a government response. Following this a further report will be brought to audit committee.

It is anticipated that the review of Audit Committee by the Corporate Services & Partnerships Policy Overview Committee will be partially informed by this consultation.