

DECISION-MAKER:	AUDIT COMMITTEE
SUBJECT:	FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION
DATE OF DECISION:	23 JUNE 2011
REPORT OF:	HEAD OF FINANCE
STATEMENT OF CONFIDENTIALITY	
Not Applicable	

BRIEF SUMMARY

On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework.

Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.

This report provides an overview of the key aspects of the 'Future of local public audit – Consultation' paper providing a draft response on behalf of Southampton City Council. The consultation covers four distinct areas:

- Regulation of local public audit;
- Commissioning local public audit services;
- Scope of audit and work of auditors;
- Arrangements for smaller bodies

RECOMMENDATIONS:

- (i) That the Audit Committee consider, the draft response to the 'Future of public audit – Consultation' (appendix 1)

REASONS FOR REPORT RECOMMENDATIONS

1. To provide a contribution to assist in the further development of the framework of the future of local public audit

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. None

DETAIL (Including consultation carried out)

Regulation of local public audit (consultation questions 3 – 10)

3. The Audit Commission is currently responsible for setting audit standards through codes of practice for local government (and health) bodies. Once the Commission has been abolished, there will be a requirement for local public audit to be regulated differently.

4. The consultation paper proposes a regulatory system for local public audit that is similar to that for private company audit under the Companies Act 2006. The consultation proposes that:
- The National Audit Office would develop and maintain codes of audit practice and any supporting guidance. Any codes of practice will require parliamentary approval as under the current system.
 - The Financial Reporting Council, the body responsible for the supervision of private sector external auditors, will regulate who can undertake local public audit work.
 - There would be a list (referred to as the register of local public statutory auditors elsewhere in the consultation paper) of audit firms who are recognised as qualified to undertake public audit work. Local councils would be required to appoint their external audit from those firms on the register.
 - The consultation paper states that the costs of the new regulatory regime will be passed on to individual audit firms, who may wish to recover such costs as part of their audit fee

Commissioning local public audit services (consultation questions 11 – 28)

5. The consultation paper proposes that all larger local public bodies (defined as those with income/expenditure over £6.5million as in the revised Accounts and Audit Regulations recently subject to separate consultation) will be able to appoint its own auditor. The appointed auditor must be on the register of local public statutory auditors.
6. The appointment will be made by Full Council, on the advice of an Audit Committee with opportunities for the electorate to make an input. It is proposed that the Secretary of State should have the power to appoint an external auditor to any local public body who fails to appoint a suitable one themselves.
7. Auditors would be appointed annually, but with a requirement to open the role to competition at least every five years. The council could re-appoint the incumbent audit firm for a maximum of ten years, after which a different audit firm must be used for further audit work.
8. The consultation paper recognises that there is more than one way of arranging an Audit Committee but sets out the following possible structure:
- The audit committee chair and vice-chair would both be independent of the local public body (i.e. not elected members);
 - The elected members on the audit committee should be non-executive, non-cabinet members sourced from the audited body. At least one should have recent and relevant financial experience, but with a recommendation that a third of the members have recent and relevant financial experience where possible; and
 - There would be a majority of members of the committee who are independent of the local public body

9. Independent members can only be considered for a position if:
- they have not been a member or an officer of the public body within five years before the date of appointment;
 - is not a member or officer of any other relevant body;
 - is not a relative or close friend of a member or an officer of the body;
 - has applied for the appointment;
 - has been approved by a majority of the members of the council; and
 - the position has been advertised in at least one local newspaper and in other similar publications and / or websites.
10. The consultation paper also seeks views on the role of the new audit committee and presents two options:
- Option One: The Audit Committee would be required to provide advice to the council on the engagement and resignation or removal of the auditor. It would then be for the council to decide whether or not the committee has any other function or duty.
 - Option Two: There would be a much more detailed mandatory role for the Audit Committee, possibly including, providing advice on the procurement and selection of an auditor, ensuring effective relations between internal and external audit and reviewing audit reports and quality. Under this option the Audit Committee would report annually to the Full Council on its activities during the year.
11. The consultation paper recognises that individual bodies might wish to collaborate on the appointment of an auditor and so the following legislation will allow both joint procurement of audit services and joint audit committees

Scope of audit work and the work of the auditors (consultation questions 29 – 41)

12. Currently, public sector bodies are subject to audit with a wider scope than in the private sector, including, for example, value for money and legality issues. The consultation paper presents four possible options for the scope of the audit of councils. These are:
- Option one: The scope of the audit would become similar to private companies with the auditor giving an opinion on the financial statements and review and report on other information published with the financial statements;
 - Option two: The scope would be similar to the current system in local government, with auditors providing an opinion of the financial statements, concluding as to whether there were proper arrangements to secure value for money and reviewing and reporting on other information including the annual governance statement;
 - Option three: New arrangements to provide stronger assurances on regularity and propriety, financial resilience and value for money; or

- Option four: A new requirement for councils to prepare and publish an annual report, which would be reviewed by the auditor with them providing reasonable assurance on the annual report.

13. Auditors would continue to have the power to prepare public interest reports, with the costs of such reports being recovered from the audited body. Local people would still be able to question the auditor, but the right to make formal objections to the accounts would be removed.
14. Audit firms would be able to provide non-audit services as long as they adhere to the ethical standards produced by the Auditing Practice Board and that permission is sought from the Audit Committee.

Arrangements for smaller bodies (consultation questions 42 – 50)

15. Different arrangements are proposed for local public bodies with income and expenditure lower than £6.5million.
16. These are summarised in the following table.

	Number of Bodies	Income / Expenditure	Scrutiny Required
Level 1	1,200	<£1,000	<ul style="list-style-type: none"> • Existing governance and accounting arrangements • No external audit required • Annual accounts published, with positive confirmation that this has been done via the precept request, or its equivalent.
Level 2	Approx 6,400	£1,000 - £50,000	<ul style="list-style-type: none"> • An Independent Examiner appointed to assess the accounts • The body must publish the details of the Examiner
Level 3	Approx 1,625	£50,000 - £250,000	<ul style="list-style-type: none"> • As Level two, but • The Independent Examiner must have a professional qualification to assess accounts appointed • Existing internal audit arrangements
Level 4	Approx 675	£250,000 - £6.5m	<ul style="list-style-type: none"> • As Level 3 but, • The Independent Examiner must hold a Professional qualification and be registered as a public auditor

17. The consultation paper proposes that either the Independent Examiner could be appointed by the County or Unitary council for the smaller public body, or the smaller public body themselves appoints such a person via their own audit committee.

18. The consultation incorporates 50 questions covering the key aspects of the DCLG proposals. Responses to the consultation are to be submitted by 30 June 2011

RESOURCE IMPLICATIONS

Capital/Revenue

19. None

Property/Other

20. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

21. The Accounts and Audit (Amendment) (England) Regulations 2006 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Other Legal Implications:

22. None

POLICY FRAMEWORK IMPLICATIONS

23. None

AUTHOR:	Name:	Neil Pitman	Tel:	023 8083 4616
	E-mail:	Neil.pitman@southampton.gov.uk		

KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	None
------------------------------------	------

SUPPORTING DOCUMENTATION

Appendices

1.	Consultation Repose
----	---------------------

Documents In Members' Rooms

1.	Future of local public audit - Consultation
----	---

Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
--	----

Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	None	
----	------	--