

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

30 JUNE 2011

SUBJECT:	FUTURE OF LOCAL PUBLIC AUDIT
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR ADRIAN JONES
KEY DECISION?	NO

1.0. EXECUTIVE SUMMARY

1.1. At the meeting of this Committee on 28 March 2011 it was explained that the Department for Communities and Local Government (DCLG) had issued a Consultation Paper on the Future of Local Public Audit. I arranged for this paper to be circulated to each Member of the Committee and requested any comments.

2.0. RECOMMENDATION

2.1. That the response to the DCLG consultation be noted.

3.0. REASON FOR RECOMMENDATION

3.1. To respond to a consultation paper.

4.0. BACKGROUND

4.1. 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 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. A new decentralised audit regime would be established but councils and local health bodies would still be subject to robust auditing.

4.2. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.

4.3. The DCLG has now issued a consultation paper on Government proposals for how a new local audit framework could work and seeks views on a number of questions. Appendix 1 outlines a summary of the proposals and Appendix 2 represents a response to the DCLG having sought comments from Members of this Committee.

4.4. The consultation document has been developed by the Department for Communities and Local Government, and the proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, the accountancy professional bodies, local government, other public bodies and other Government departments.

4.5. The DCLG will have regard to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. They are:

- **Independence of public sector auditors from the organisations being audited.** Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors; the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to any information necessary for audit work.
- **The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money.** Public audit involves more than an opinion on the accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to the corporate governance arrangements of public bodies.
- **The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and to other key stakeholders.** To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.

5.0 RELEVANT RISKS

5.1. That Committee and Council do not consider the possible implications of potential changes in legislation relevant to Audit Committees and external auditors.

6.0 OTHER OPTIONS CONSIDERED

6.1. No other options were considered.

7.0 CONSULTATION

7.1. Members of the Audit and Risk Management Committee.

7.2. The Consultation Document was distributed by the DCLG to all bodies currently audited by the Audit Commission.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1. There are none arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 There are none arising from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are none arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising from this report.

FNCE/91/11

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APPENDICES

Appendix 1 -Summary of Proposals

Appendix 2 – Response to the DCLG Consultation

REFERENCE MATERIAL

Future of Local Public Audit Consultation - DCLG - March 2011

SUBJECT HISTORY (last 3 years)

Council Meeting	Dates
Audit and Risk Management Committee	28 March 2011

SUMMARY OF PROPOSALS

1. Auditors of local public bodies continue to follow the Standards of the Auditing Practice Board. The National Audit Office (NAO) should develop and maintain the audit codes, which would be approved by Parliament. The NAO would also produce supporting guidance.
2. An overall regulator would have responsibility for authorising professional accountancy bodies to act as supervisory bodies for local public audit. It would have the role of registration, monitoring and discipline in relation to local public audit. It is proposed that the Financial Reporting Council, as regulator for Companies Act audits, should take on a similar role for local public audit.
3. All public bodies with income/expenditure over £6.5m will be under a duty to appoint an auditor, who will need to be on a register of local public statutory auditors.
4. Each larger local public body should have an Audit Committee with a majority of members independent of the body and with some elected Members to strike a balance between objectivity and in-depth undertaking of the issues:

An envisaged structure of an audit committee is:

- i. the chair would be independent of the body, together with the vice-chair.
- ii. the elected Members should be non-executive, non-cabinet, from the audited body and at least one to have recent and relevant financial experience, although where possible a third of the members should be in this position.
- iii. there would be a majority of the members of the committee who are independent of the public body.

Alternative arrangements are:

- a. only the Chair and a minority of members of the Committee are independent.
 - b. a selection of the Committee are independent of the body.
5. The audit appointment is made by the Council on the advice of the Audit Committee with opportunities for the electorate to make an input.
 6. Joint procurement and joint audit committees are legally enabled to ensure wide competition and co-operation between public bodies.
 7. Some responsibilities for the Audit Committee in the engagement of an auditor and in monitoring independence and quality.

8. The expanded role of the Audit Committee would include:-
 - a. advice to the Council, together with considering advice from the S151 Officer (Director of Finance), on criteria for engaging an auditor.
 - b. receipt of bids for evaluation in order to be able to advise the Council on the process and the best choice of auditor, although the Council need not follow this advice. If this were the case, the advice and reasons for ignoring it would have to be published on the website
9. The appointment and work of the external auditor should be transparent so that local people can make representations at any time about the audit firms and any issues relating to the auditor.
10. The audited body is under a duty to appoint an auditor and if it does not then the Secretary of State would appoint an auditor and a sanction would be applied.
11. The rotation of staff within the audit firm should be in line with current ethical standards. The Audit Committee would have a role in monitoring the independence and objectivity of the external auditor.
12. There would be safeguards covering the resignation and removal of an auditor, to protect the independence of the auditor and the quality of the auditor. These would be similar to those in the Companies Act and designed to ensure that auditors are not removed or made to resign without serious consideration.
13. A legislative framework could set out the process for setting and agreeing liability limitation agreements. Without an agreement, audit fees would increase to reflect the increased risk they would face.
14. Consideration is being given to the scope of the audit for local public bodies particularly with regard to whether there should be a move to a more transparent model such as that followed by companies and charities which must produce a director or trustees report. The role of the external auditor would be affected by the decision on transparency.
15. The duty of the auditor to make a report in the public interest should be retained together with the body's responsibility to consider the report and publish meeting decisions.
16. Auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any threats to the auditor's independence.
17. The role in Public Interest Disclosures of receiving disclosures should be transferred to the Audit Committee from the Audit Commission. The external auditor would continue to be a "prescribed person" with no change from the present, so that both entities would be prescribed persons, under the Act.

18. The rights for local government electors to object to the accounts are considered outdated and over-burdonsome on auditors, local public bodies and Council Tax payers. Members of the public would retain the right to make representations to the auditor, to raise issues and to ask questions about the accounts.
19. Auditors should be brought into the remit of the Freedom of Information Act when they are carrying out a public audit.