

AUDIT COMMITTEE

29 MARCH 2012

LOCAL PUBLIC AUDIT CONSULTATION

Report from: Internal Audit

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Summary

This report is to inform Members of the outcome of the Government Consultation on the future of local Public Audit.

1. Budget and Policy Framework

- 1.1 Following the Council's decision to establish this committee, it is within the remit of this committee to take decisions regarding accounts and audit issues.

2. Background

- 2.1 In March 2011 the Government issued a consultation document titled "Future of local Public Audit". This was reported to Members on 5 July 2011. This document set out the Government's views on how external audit of local public bodies, including Councils, should be organised after the abolition of the Audit Commission. There were four principles used in the design of the proposals: Localism and decentralisation; transparency; lower audit fees; higher standards of auditing.

3. Summary of Consultation Outcomes

- 3.1 The results of the consultation were published 4 January 2012 in a document titled "Government response to the future of local audit consultation". The proposals that the government will be making are set out in Annex A and these are summarised as:
- Councils will appoint their own external auditor from a national register of audit firms
 - The full council will make the appointment on the advice of an Independent Audit Appointment Panel
 - The National Audit Office will take over responsibility for producing a Code of Audit Practice.

3.2 External Auditor Appointment:

The external auditor is to be appointed by 31 December in the year preceding the financial year for which the audit will be carried out. The auditor will need to be appointed annually, a competitive appointment process will need to be undertaken within five years, and an audit firm's reappointments must not exceed 10 years i.e. two five year terms.

3.3 Independent Audit Appointment Panel

The original proposal was that the Audit Committee should comprise a majority of independent members i.e. not elected members of serving officers. Following the consultation this proposal has been amended to the setting up of Independent Audit Appointment Panels which will be independently chaired, and will have the statutory obligation for the engagement, resignation and removal of an external auditor. The panel will be responsible for monitoring independence. The government are looking to work with the sector to enable the sharing of these panels and also to provide guidance on their roles and responsibilities. Once the new arrangements are in place the Council will need to determine how the Audit Committee will interact with the Independent Audit Appointment Panel.

3.4 The government intend to publish a draft Bill for pre-legislative scrutiny in Spring 2012. There is no indication at this stage of when the new system will be implemented, and as the Audit Commission are currently undertaking a procurement exercise to award external contracts that are expected to run for three to five years the adoption of the new system of audit will be some time away.

3.5 The Audit Commission have appointed auditors for Councils currently audited by the Commissions in-house practice. The appointments are by area, and Grant Thornton are the appointed auditors covering Kent. Medway's External Auditor is PKF and as such is not covered by these arrangements. In a letter from the Audit Commission dated 6 March 2012 it was confirmed that where a Council is currently audited by a firm, these arrangements should be extended. There is therefore no action needed at present.

4. Risk Management, Financial and legal implications

4.1 There are no risk management, financial and legal implications arising from this report.

5. Recommendations

5.1 The Committee is asked to note the report.

Lead officer contact

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Background papers

None.

**Summary of Outcome of Government Consultation
on the future of local Public Audit**

External Audit arrangements once the Audit Commission is abolished

In March 2011 the Government issued a consultation document titled “Future of local Public Audit”. This document set out the Government’s views on how external audit of local public bodies, including Councils, should be organised after the abolition of the Audit Commission. There were four principles used in the design of the proposals: Localism and decentralisation; transparency; lower audit fees; higher standards of auditing.

The results of the consultation were published 4 January 2012 in a document titled “Government response to the future of local audit consultation”.

The original proposal was that the Audit Committee should comprise a majority of independent members i.e. not elected members of serving officers. Following the consultation this proposal has been amended and the proposed change to the required constitution of the Audit Committee has been rescinded.

The proposals that the government will be making are that:

- Councils will appoint their own external auditor from a national register of audit firms
- The full council will make the appointment on the advice of an Independent Audit Appointment Panel
- The National Audit Office will take over responsibility for producing a Code of Audit Practice.

External Auditor Appointment

The external auditor is to be appointed by 31 December in the year preceding the financial year for which the audit will be carried out. The auditor will need to be appointed annually, a competitive appointment process will need to be undertaken within five years, and an audit firm’s reappointments must not exceed 10 years i.e. two five year terms.

Independent Audit Appointment Panel

The intention is to set up Independent Audit Appointment Panels that will be independently chaired, that will have the statutory obligation for the engagement, resignation and removal of an external auditor. The panel will be responsible for monitoring independence. The government are looking to work with the sector to enable the sharing of these panels and also to provide guidance on their roles and responsibilities. Once the new arrangements are in place the Council will need to determine how the Audit Committee will interact with the Independent Audit Appointment Panel.

The government intend to publish a draft Bill for pre-legislative scrutiny in Spring 2012. There is no indication at this stage of when the new system will be

implemented, and as the Audit Commission have just undertaken a procurement exercise to award external contracts that are expected to run for three to five years the adoption of the new system of audit will be some time away.

A Russell
March 2012