

## **Future arrangements for Audit**

### **Purpose of report**

For discussion and direction

### **Summary**

This report updates members with regard to developments about and invites initial views on, the future shape of audit.

### **Recommendations**

Members are recommended:

1. To note the report and express initial views on some of the issues involved in developing a new approach to audit (paragraph 8)
2. To consider the position that, if the life of the Audit Commission is extended beyond 2012/13, its activities should focus on audit alone.

### **Action**

To take members' views into account in on-going discussions and in shaping the LGA's initial response to the publication of the forthcoming consultation of the future shape of audit.

A further report be brought to a future meeting of the Board to enable members to discuss the CLG Consultation paper itself and the LG Group response.

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## **Future arrangements for Audit**

### **Background**

1. On 13 August 2010, Eric Pickles MP, Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and to refocus audit on helping local people hold councils and local public bodies to account for local spending decisions.
2. In summary the Audit Commission's responsibilities for overseeing and delivering local audit and inspections will stop; the Commission's research activities will end; audit functions will be moved to the private sector; councils will be free to appoint their own independent external auditors from a more competitive and open market; and there will be a new audit framework for local health bodies.
3. These changes are part of the Government's wider focus on transparency. Government proposes that local people should now be the audience for assurances that their council is spending money wisely, that they are well governed, their council is financially robust, achieving value for money and providing accurate information and data.
4. Although the original intention was to have new arrangements in place for auditing England's local public bodies by 2012/13 this is subject to parliamentary timetables. It seems DCLG are likely to issue a consultation paper on the future of public audit shortly with consultation until the summer. It might be expected that this would be followed by consultation on draft legislation meaning that the parliamentary processes might not begin until 2012. As a consequence the new audit arrangements would not commence until 2013/14 financial year at the earliest.

### **CLG Select Committee Inquiry into the future arrangements for Audit Commission activities**

5. The CLG Select Committee has initiated an inquiry into the future arrangements for Audit Commission activities, including:
  - 5.1 Audit of local authority expenditure
  - 5.2 Oversight and inspection of local authority performance and
  - 5.3 Value for money studies.
6. Cllrs Jill Shortland and Robert Light attended the Inquiry to give evidence on behalf of the LGA along with Cllrs Dave Wilcox and Roger Phillips for the County Councils Network and Cllrs Peter Fleming and Sharon Taylor for the District Councils Network. A summary of the LGA's written evidence – approved by lead

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members in the light of the discussion at the November Board meeting - is **attached** at Appendix A.

7. As well as responding to the Committee's questions members took the opportunity to make the points that councils should be accountable to local people not central government agencies; that sector self-regulation particularly through peer review would be a more effective system of improvement and managing the risk of failure; that safeguards would still be in place through inspections of children and vulnerable adult services and financial audit and that the LGA was ideally placed to lead the sector self regulation work.

**Future arrangements for Audit – some likely issues to be considered**

8. As reported in November, CLG invited the Audit Commission to set out some of the detailed practical issues to be considered in developing the new approach to audit, some of which were also raised by the Select Committee. Key issues that will need to be addressed include:
  - 8.1 If Auditors are in future to be appointed by the council itself, how should the independence of the audit be protected? At one end of the spectrum it could be argued that the regulation of auditors and their own professionalism will be sufficient. Alternatively it could be suggested that the appointment process needs stronger – statutorily based - independent input.
  - 8.2 The scope of Audit. Options are likely to range from continuation of the present arrangements; increasing the scope of audit to include "financial resilience" and a more in depth assessment of value for money; or a lighter touch "by exceptions" approach.
  - 8.3 Treatment of smaller public bodies (in particular parish councils). Under current legislation the statutory audit for smaller public bodies is the same as for larger and it seems generally accepted that a more proportionate approach should be introduced and this could extend to the appointment process. In its Issues paper the Commission floated the idea of a principal council appointing the auditor for a parish council.

**Audit Fees**

9. Following views expressed by the LGA on their work programme and fees consultation, the Audit Commission has announced a further reduction in fees. The Commission has agreed, subject to affordability, to make additional rebates of up to £7.2 million (8 per cent) in 2011/12. According to the Commission this means all audited bodies will see a significant net reduction in fees compared to the current year. The Commission is also committed to delivering further reductions of up to 15% in 2012/13.

**Financial Implications**

10. There are no additional financial implications arising from this report.

**LGA Evidence: Summary of key points**

- Future arrangements for the Audit Commission's activities need to be set within the context of the Coalition Government's approach to transparency and stronger local, rather than national, accountability.
- External audit makes an important contribution to the stewardship of public resources and the corporate governance of public services, but the current arrangements are not without the need for improvement.
- Local people and communities should be the primary audience for audit and a simpler and more easily understandable framework for published accounts is required.
- We welcome the proposals for councils to appoint their own auditors.
- We fully acknowledge the need for appropriate safeguards to preserve the independence of audit and ensure public trust in the process and outcomes is not jeopardised. But at the same time we need to avoid the possibility that the new approach to audit becomes over regulated and prescribed through Government guidance.
- The scope of audit should in future be more tightly focussed around the accuracy of the financial statements and issues of probity (that the authority's financial activities are materially free from fraud and corruption).
- The current approach to grant certification is expensive and unnecessary. This spending should be audited through the annual audit.
- There is no need to vest the Commission's existing inspection powers in another body such as the National Audit Office.
- New arrangements need to be put in place – with the LG Group – to ensure the potential burden of remaining inspection activity on individual councils is managed effectively.
- There is an opportunity to secure improvements in the current approach to value for money studies.