

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**24 April 2012**

**Report of the Director of Finance**

**FUTURE OF LOCAL PUBLIC AUDIT  
(FINANCE AND MANAGEMENT)**

**1 Purpose of the Report**

To provide Members with an update on the provision of external audit services to replace those currently provided by the Audit Commission.

**2 Information and Analysis**

In August 2010, the Government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the Government published a consultation paper, details of which were reported to Cabinet on 21 June 2011. In total the Government received 453 responses to the consultation; mainly from audited bodies.

In January 2012, the Government published its further views after considering on the consultation responses received. In the main the Government felt that the consultation reiterated the design principles it had previously proposed, which were: -

- Localism
- Transparency
- Cost Saving
- Improving Standards

However the Government did recognise that although most respondents agreed with these principles there was a strong view that cost savings might be difficult to achieve.

Government have reaffirmed that:

- National Audit Office (NAO) will be responsible for developing and maintaining the audit codes of practice;
- Financial Reporting Council (FRC) will oversee the regulatory regime as it does for statutory audit of companies;

- FRC will share with Recognised Supervisory Bodies (RSB) ie the major accounting institutes including CIPFA, responsibility for registering eligible firms including determining qualifications, experience and other criteria individuals need before being permitted to carry out local public audit.

Government has reiterated its view that the appointment of an auditor should be made by full Council on the recommendation of an Independent Audit Appointment Panel (IAAP), which should have a majority of independent members and be chaired by an independent member. In the case of the Police the auditor would be appointed by the new Police Commissioners and for Fire Authorities by the IAAP directly.

This raises a number of questions about the way an IAAP would operate. However, the key task would be to ensure there is a close understanding of the requirements of the Council by the IAAP through liaison with key officers and members before and during the appointment process.

Government is currently considering how best to make the IAAP process effective, but the prevailing view appears to be: -

- The IAAP could be the existing Audit Committee supplemented, at the time of procurement, by the necessary number of independent members - if the Audit Committee does not currently have a majority of independents;
- The role would be limited to appointment, resignation/removal of auditors and consideration of reports in the public interest (rare occurrence);
- Costs of procurement could be reduced by joint procurement within a geographic area.

Following the consultation the Government view is that the scope of audit should remain broadly as it is now, ie to satisfy that:

- The accounts have been prepared in accordance with statutory requirements;
- Proper practices have been observed in the compilation of those accounts;
- The body has proper arrangements for securing economy, efficiency and effectiveness in the use of resources ie value for money (VfM).

The prevailing view seems to be that the scope should encompass VfM but in a risk based and proportionate way with the authority providing evidence but without the need for a raft of additional work. One way

might be to build on the Annual Governance Statement. This area is the subject of further work and consultation.

The Government is proposing to publish a draft bill in Spring 2012 and will consult with local authorities and other relevant bodies to flush out the underlying details of the framework, and how it might be implemented.

On 5 March 2012, the Audit Commission announced the award of contracts for the work they currently undertake, for the period 2012/13 to 2016/17. The details of which are as follows:

- Contracts will be let from 2012/13 on a five-year basis. The earliest local authorities will be able to appoint their own auditors is therefore for the 2017/18 audit;
- The work is split into four regions, comprising ten 'lots'. Each lot has now been awarded separately. Individual bidders could only win a maximum of one lot in each region ie four lots in total;
- The successful bidder for the East Midlands lot is KPMG but note that the Audit Commission must still complete a formal consultation process to be followed for individual audit appointments;
- For bodies such as the Council, currently audited by the Audit Commission, there will be an opportunity to attend an introductory event in each contract area with the Audit Commission and the firm awarded the contract. The events will take place in May 2012;
- Appointments will start on 1 September 2012. As such, the Audit Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Audit Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment; and
- Audit Commission staff in each lot area will, in the main, transfer to the successful bidders on 31 October 2012.

The new arrangements will provide savings of £250m nationally over five years and will lead to fee reductions of around 40% for local bodies. The Government were happy to support the sector's preference for these big fee reductions to be locked in for five years.

The Government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments. Thereafter, the Government proposes that a new local public audit regime will apply.

### **3 Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

### **4 Key Decision**

No

### **5 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report? No

### **6 Background Papers**

Paper held in Technical Section, Corporate Finance  
Future of Local Public Audit - summary of responses - Department for Communities and Local Government  
Audit Committee Update 20 March 2012 - Audit Commission

### **7 OFFICER'S RECOMMENDATION**

To note the outcomes of the consultation on the Future of Local Public Audit and the details of the external audit contracts for the period 2012/13 to 2016/17.

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5 April 2012