

REPORT TO: Governance and Audit Committee – 27th January 2012

REPORT BY: Head of Audit & Performance Improvement

Future of Local Public Audit

1. Purpose

The purpose of this report is to update members about changes to the arrangements for public audit, as proposed in the Government's paper "Government Response to the Future of Local Public Audit Consultation".

2. Recommendation

Members are recommended to note the changes proposed in the paper.

3. Background & Proposals

In June 2011 I reported to this committee that the Government had issued a consultation paper "The Future of Local Public Audit", which set out a number of options for the future shape of external audit following the proposed abolition of the Audit Commission.

The Government has collated responses to the consultation and published its proposals for further discussion with local authorities and professional bodies. A summary of the key proposals is as follows:

- (i) There will be a consistent regulatory regime for audit, covering both the private and public sectors. The National Audit Office will produce a code of practice for local authority audits, and there will be "recognised supervisory bodies", which will be the accountancy professional bodies.
- (ii) Councils must set up an Independent Audit Appointment Panel, which must have an independent chair and a majority of independent members (i.e. not councillors or officers). This panel must advise the Council on the appointment of its external auditors
- (iii) Although the Council must reaffirm its appointment decision (on the advice of the independent panel) every year, it must undertake a full procurement exercise every 5 years. An external auditor can only be appointed for 2 successive 5 year periods.
- (iv) The scope of external audit will be broadly similar to the current arrangement. This will include an audit of the Council's accounts and a judgement about whether the Council has arrangements in place for securing value for money in its use of resources. The details of how this judgement will be reached will be provided at a later date, but the intention is for auditing to be more risk based than was previously the case.
- (v) Arrangements for public interest reporting will remain unchanged, and auditors will be given greater freedom to decide whether to pursue objections to the accounts from electors.

4. Implementation

The Government proposes to issue a draft bill in the spring of 2012. In the meantime, the Audit Commission is in the process of outsourcing its existing audit work. It is envisaged that these contracts will last for 3-5 years to allow time for councils to implement their new audit arrangements.

5. Head of Legal's Comments

The Bill, and proposals, will need to be examined in full by the Head of Legal Services in order to assess the impact on the governance and audit arrangements of Portsmouth City Council.

6. Head of Finance's Comments

Whilst there is the possibility that the cost of external audit in the future may change and there is an expectation that cost savings will be achievable, these are, as yet, unknown.

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Head of Audit & Performance Improvement

Background List of Documents – Section 100D of the Local Government Act 1972

The following documents disclosed facts or matters which have been relied upon to a material extent by the author in preparing this report:

DCLG Consultation Paper “Future of Local Public Audit” published March 2011

DCLG Paper “Government Response to the Future of Local Audit Consultation” 2012