

AGENDA ITEM:

REPORT TO:	MERSEYSIDE FIRE & RESCUE AUTHORITY MEETING
DATE:	30TH JUNE 2011
REPORT NO.	CFO/067/11
REPORTING OFFICER:	ASSISTANT CHIEF EXECUTIVE & TREASURER
CONTACT OFFICER:	IAN CUMMINS, DIRECTOR OF FINANCE, EXTN. 4224
OFFICERS CONSULTED:	
SUBJECT:	CLG CONSULTATION ON – THE FUTURE OF LOCAL PUBLIC AUDIT

APPENDIX A TITLE CONSULTATION QUESTIONS AND RESPONSE
TO CONSULTATION

ATTACHED – HARD COPY

* There is a Glossary of Terms at the end of this report for your information

Purpose of Report

1. CLG has sought consultation on the future of local public audit following the announcement of the abolition of the Audit Commission. This report provides the context to this consultation, the key points emerging and the Authority's proposed responses to it.

Recommendation

2. The proposed responses to the consultation are considered and approved.

Executive Summary

The Government announced on 13 August, 2010, it planned to abolish the Audit Commission.

CLG have issued a consultation paper "**Future of local public audit**" that sets out the proposals for the future arrangements for local audit. The paper considers a number of issues mainly around the commissioning of audit work and the scope of the audit committee and the work of the auditor:

- Commissioning - Authorities would appoint their own auditors, with decisions made by the full Authority, taking into account **advice from an independently chaired audit committee**. The Chair, Vice-Chair and majority of members of the Audit Committee would be independent of the Authority.

- Scope - The proposed scope of responsibilities the independent **audit committee** range from a simple advisory one for commissioning audit work to those currently undertaken by the existing Authority's audit committee (considering audit reports, reviewing financial statements etc). The paper also considers the scope of **the audit and work** of the auditors and suggests a number of options ranging from; a review of the core financial statements, through to a comprehensive review of the Authority taking into account value for money, the achievement of economy, efficiency and effectiveness, a review of the annual report (the production of an annual report would be a new requirement on public bodies in one of the options).

The consultation paper sets out 50 questions for authorities to consider and respond to that and take into account the above proposals and seek views on some specific issues. Appendix A attached to this report outlines the proposed Authority response.

The deadline for responses is the 30th June 2011.

Introduction & Background

3. This briefing sets out the principles and questions contained within a consultation document issued by the Department for Communities and Local Government (CLG), entitled the Future of Local Public Audit. It is a consequence of the abolition of the Audit Commission and sets out proposals for arrangements in relation to the appointment of external auditors and the role of audit committees.
4. The CLG's consultation document on the Future of Local Public Audit is available on their website at:
<http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf>
5. Consultation closes on the 30th June and therefore an e-mailed response will be sent after today's meeting incorporating any amendments requested by Members.
6. The Government believes that the current arrangements for local public audit, whereby a single organisation is the regulator, commissioner and provider of local audit services are unnecessarily centralised. The consultation report suggests there is a lack of transparency and clarity as well as potential conflicts between the roles. The report states that the proposals have been adapted to ensure that the principles of public sector audit are maintained. The consultation sets out proposals on the new audit framework where:
 - (a) audit quality is regulated within a statutory framework overseen by the National Audit Office and the accountancy profession;
 - (b) local public bodies with a turnover over £6.5m will be free to appoint their own external auditors with safeguards for independence; and

- (c) the appointment would be made by the full Authority, taking into account the advice of an **independently** chaired audit committee (see section on **Commissioning local audit services**), and with an opportunity for the electorate to make an input.
7. The stated design principles are to replace the current centralised audit systems managed by the Audit Commission, with a new decentralised regime (**localism**), which will support local democratic accountability (**transparency**), and one that will also cut bureaucracy and costs (**lower audit fees**), while ensuring that there continues to be effective and transparent regulation of public audit, and conformity to the principles of public audit (**high standards of auditing**).

Summary of the consultation

8. The consultation paper sets out proposals in the following areas:
- (a) **regulation** of local public audit – standards, registration, monitoring and enforcement;
 - (b) **commissioning** local audit services – role of the audit committee, rotation of auditors; and
 - (c) the **scope** of the audit work.

Regulation of local public audit

9. The Audit Commission currently sets audit standards through Codes of Audit Practice for the local government and regulates the quality of audit work that is undertaken. The consultation proposes that responsibility for producing codes of practice be transferred to the National Audit Office. It is proposed that the Financial Reporting Council or another independent body set up for this purpose would take on responsibility for regulating public audit. This would include reviewing the quality of individual assignments and the policies, procedures and internal controls of any firms licensed to carry out public sector audits.

Commissioning local audit services

10. All auditors of local authorities are currently appointed by the Audit Commission. It is proposed that all larger public bodies with expenditure over £6.5m would appoint their own auditors from the register of local public body statutory auditors maintained by the regulator. It is proposed that the appointment is made by full council on the advice of an audit committee. Appointments can be made by a single body or there can be joint procurement by a group of bodies.
11. The consultation paper considers the form of the audit committee. It is proposed that:

- (a) **the Chair and Vice Chair should be independent of the public body;**
 - (b) Elected Members on the committee should be non-executive members and at least one should have recent and relevant financial expertise; and
 - (c) **the majority of the members of the audit committee would be independent of the public body.**
12. The consultation paper includes the following criteria for appointment of Independent Members of the Audit Committee:
- (a) not been a Member or Officer of the local authority within five years before the date of appointment;
 - (b) not a Member or Officer of that or any other relevant authority;
 - (c) not a relative or close friend of a Member or Officer of the authority they have applied for the appointment;
 - (d) they have been approved by a majority of the Members of the council; and
 - (e) the position has been advertised in at least one newspaper that is distributed locally and in similar publications or websites that the local authority considers appropriate.
13. CLG are inviting responses on the:
- (a) criteria for ensuring the quality, skills, and experience of Independent Members;
 - (b) whether the sourcing of suitable independent Members would be difficult; and
 - (c) whether Independent Members would be paid and if so how much.
14. Regarding, the audit committee the paper sets out two options as to the scope of the duties:
- Option 1:
- A mandatory duty to provide advice on the engagement of the auditor and the resignation or removal of an auditor. Any wider role would be for the local public body to determine; or
- Option 2:
- The specification of a more detailed mandatory role for the audit committee which could include:

- (a) providing advice to the full council on the procurement and selection of the external auditor;
- (b) setting a policy on the provision of non audit work by the external auditor;
- (c) overseeing issues around the possible resignation or removal of an auditor;
- (d) seeking assurances that action is being taken on issues identified by the auditor;
- (e) ensuring that there is an effective relationship between internal and external audit;
- (f) reviewing financial statements, external auditors reports and conclusions and monitoring management actions;
- (g) providing advice to the full council on the quality of service they are receiving; and
- (h) reporting annually to the full council on its activities.

15. CLG is seeking comments on:

- (a) which option provides the best balance between a localist approach and a robust role for the audit committee;
- (b) whether the roles set out in Option 1 and 2 are appropriate roles and responsibilities for an audit committee; and
- (c) to what extent the role of the audit committee should be specified in legislation.

16 It is proposed that the public would have the right to make representations to the audit committee about the appointment of an auditor and at any time post appointment. There are also proposals to limit the period of any firm's period of appointment.

Scope of public audit

17 Currently the external auditor is required to give an opinion on the financial statements, a conclusion on value for money, review and report on the annual governance statement, and the Whole of Government Accounts return.

18 The consultation paper sets out four options:

Option 1.

Giving an opinion on the financial statements, reviewing and reporting on, as appropriate, other information included in the financial statements including the governance statement, remuneration report and whole of government accounting summarisation schedules.

Option 2.

As above, and providing a conclusion as to whether the body has proper arrangements in place to secure value for money having regard to specified criteria.

Option 3.

Giving an opinion on the financial statements, providing a conclusion on regularity and propriety e.g. compliance with laws and regulations, the body's governance and control regime, providing a conclusion on the future financial sustainability of the audited body, providing a conclusion as to whether the body has proper arrangements in place to secure value for money and about the achievement of economy, efficiency and effectiveness within the audited body.

Option 4.

Under this option all local public bodies would be required to produce an annual report. The auditor would be required to give an opinion on the financial statements, review the audited body's annual report, and provide reasonable assurance on the annual report.

Option 2 reflects the current arrangements, while option 3 would provide greater transparency for local citizens but would require a greater volume of audit work to be undertaken. Option 4 also provides transparency but would require an annual report to be produced in a prescribed format. The CLG are seeking feedback on which option provides the best balance between costs for local public bodies, a robust assessment of value for money for the taxpayer and provides sufficient assurance and transparency to the electorate.

Although the current duty for an auditor to consider making a report in the public interest and requirements for the audited body to respond would remain in the new regime, the right for the public currently to formally raise objections with the auditor would be removed.

19 The above issues are covered by the consultation questions and the full list of the 50 consultation questions and draft responses can found in the attached **Appendix A** to this report.

Equality & Diversity Implications

20. None arising from this report.

Financial Implications & Value for Money

21. The CLG paper sets one of the designing principles as “lower audit fees” and therefore it may be deemed reasonable to assume the cost of external audit will be no greater than the current provision. However, the proposals around the constitution of the audit committee and the need for independent members may require some marginal investment.

Health & Safety and Environmental Implications

22. None arising from this report.

Contribution to Achieving Our Purpose:

“To Make Merseyside a Safer, Stronger, Healthier Community

23. None arising from this report.

BACKGROUND PAPERS

CLG Consultation On – The Future Of Local Public Audit

Glossary of Terms

FPC - The Financial Reporting Council is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. They also oversee the regulatory activities of the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.