

REPORT TO: Business Efficiency Board
DATE: 29th June 2011
REPORTING OFFICER: Operational Director – Finance
SUBJECT: Consultation on the Future of Local Public Audit
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To inform the Board of a consultation by Communities and Local Government (DCLG) into the Future of Local Public Audit, which may result in changes to the role and membership of Audit Committees.

2.0 RECOMMENDED: That;

- (i) **the report, including the response to the consultation from the Liverpool City Region’s Directors of Finance (Appendix 1), be supported;**
- (ii) **the Board provide any additional comments to the consultation response; and,**
- (iii) **the letter from Sir Bob Kerslake regarding the future of the Audit Commission and their local public audit work (Appendix 2), be noted.**

3.0 BACKGROUND

3.1 On 30th March 2011 DCLG issued a consultation document entitled the Future of Local Public Audit, with a deadline for responses of 30th June 2011. 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.

3.2 Halton has contributed to a response to the consultation by the Liverpool City Region’s Directors of Finance, a copy of which is shown in Appendix 1.

3.3 Appendix 2 presents for information a letter received from Sir Bob Kerslake, which provides an update on the future of the Audit Commission and their local public audit work.

4.0 SUMMARY OF THE CONSULTATION

Consultation Principles

4.1 The stated principles within the consultation are to replace the current centralised audit systems managed by the Audit Commission, with a new decentralised regime,

which will support local democratic accountability, and one that will also cut bureaucracy and costs, while ensuring that there continues to be robust local public audit.

- 4.2 The consultation sets out proposals on the new audit framework whereby:
- audit quality is regulated within a statutory framework overseen by the National Audit Office and the accountancy profession;
 - local public bodies with a turnover over £6.5m will be free to appoint their own external auditors with safeguards for independence; and,
 - the appointment would be made by Full Council, taking into account the advice of an independently chaired Audit Committee, and with an opportunity for the electorate to make an input.

- 4.3 The consultation paper sets out proposals in the following areas:

- **regulation** of local public audit – standards, registration, monitoring and enforcement;
- **commissioning** local audit services – role of the Audit Committee, rotation of auditors; and,
- the **scope** of the audit work.

Regulation of Local Public Audit

- 4.4 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.
- 4.5 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

- 4.6 All external auditors of Councils are currently appointed by the Audit Commission. It is proposed that all larger public bodies with expenditure over £6.5m, such as Halton Borough Council, would appoint their own auditors from the register of local public body statutory auditors maintained by the Regulator.
- 4.7 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.
- 4.8 The consultation paper considers the form of the Audit Committee. It is proposed that:
- the Chair and Vice Chair should be independent of the Council;
 - elected Members on the Committee should be non-executive members and at least one should have recent and relevant financial expertise; and,
 - the majority of the Members of the Audit Committee would be independent of the Council.

- 4.9 The consultation paper includes the following criteria for appointment of Independent Members of the Audit Committee:
- not been a Member or officer of the Council within five years before the date of appointment;
 - not a Member or officer of that or any other relevant authority;
 - not a relative or close friend of a Member or officer of the Council they have applied for the appointment;
 - they have been approved by a majority of the Members of the Council; and,
 - the position has been advertised in at least one newspaper that is distributed locally and in similar publications or websites that the Council considers appropriate.
- 4.10 The DCLG are inviting responses on the;
- criteria for ensuring the quality, skills, and experience of Independent Members;
 - whether the sourcing of suitable Independent Members would be difficult; and,
 - whether Independent Members would be paid and if so how much.
- 4.11 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:
 - providing advice to the Full Council on the procurement and selection of the external auditor;
 - setting a policy on the provision of non audit work by the external auditor;
 - overseeing issues around the possible resignation or removal of an auditor;
 - seeking assurances that action is being taken on issues identified by the auditor;
 - ensuring that there is an effective relationship between internal and external audit;
 - reviewing financial statements, external auditors reports and conclusions and monitoring management actions;
 - providing advice to the Full Council on the quality of service they are receiving; and,
 - reporting annually to the Full Council on its activities.
- 4.12 The DCLG is seeking comments on which option provides the best balance between a localist approach and a robust role for the Audit Committee, whether the roles set out in Option 1 and 2 are appropriate roles and responsibilities for an Audit Committee, and to what extent the role of the Audit Committee should be specified in legislation.
- 4.13 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

- 4.14 Currently the external auditor is required to give an opinion on the financial statements, a conclusion on value for money, and to review and report on the Annual Governance Statement, and the Whole of Government Accounts return.

The consultation paper sets out four options:

- 4.15 **Option 1:** Giving an opinion on the financial statements, reviewing and reporting on, as appropriate, other information included in the financial statements including the Annual Governance Statement, Remuneration Report and Whole of Government Accounts return.
- 4.16 **Option 2:** As above, and providing a conclusion as to whether the body has proper arrangements in place to secure value for money having regarded to specified criteria.
- 4.17 **Option 3:** Giving an opinion on the financial statements, providing a conclusion on regularity and propriety e.g. compliance with laws and regulations, the Council's governance and control regime, providing a conclusion on the future financial sustainability of the Council, providing a conclusion as to whether the Council has proper arrangements in place to secure value for money and about the achievement of economy, efficiency and effectiveness within the Council.
- 4.18 **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 Annual Report, and provide reasonable assurance on the Annual Report.
- 4.19 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 DCLG are seeking feedback on which option provides the best balance between costs for Councils, a robust assessment of value for money for the taxpayer and provides sufficient assurance and transparency to the electorate.
- 4.20 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.

5.0 RESPONSE TO THE CONSULTATION

- 5.1 The response to the consultation from the Liverpool City Region's Directors of Finance, in Appendix 1, makes the following key comments;
- Several of the proposals made in the consultation will add to both the administrative and financial burdens faced by Councils
 - It is debateable whether the proposals will improve the accountability of Councils to local people

- The National Audit Office would be best placed to produce the Code of Audit Practice and the supporting guidance, but there needs to be full and proper consultation on the Code of Practice.
- The Financial Reporting Council should be responsible for the regulation of statutory local public auditors.
- The assumption that there needs to be Independent Members on Audit Committees is not supported, as Councillors currently fulfil this role successfully and are democratically elected.
- In terms of scope of the audit, Option 2 is seen as providing the Audit Committee with a role which adds value.
- The requirement for an Audit Committee and its roles and responsibilities should not be specified in legislation, but provided (as now) within guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

6.0 NEXT STEPS

6.1 The outcome and implications of the DCLG consultation will be reported to the Board as soon as they are known.

7.0 POLICY AND OTHER IMPLICATIONS

7.1 None.

8.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

8.1 There are no direct implications.

9.0 RISK ANALYSIS

9.1 There are no risks associated with the DCLG consultation.

10.0 EQUALITY AND DIVERSITY ISSUES

10.1 None.

11.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Future of Local Public Audit Consultation Communities and Local Government	Financial Management Kingsway House Widnes	Ed Dawson

The Future of Local Public Audit - Consultation
Response of the Liverpool City Region's Directors of Finance

The Directors of Finance within the Liverpool City Region welcome the opportunity to respond to the consultation and would like to make the following comments.

This response reflects the views of the Directors of Finance of the following authorities in the Liverpool City Region:

- Halton
- Knowsley
- Liverpool
- Sefton
- St Helens
- Wirral
- Merseyside Fire & Rescue
- Merseyside Police
- Merseyside Waste Disposal Authority

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

The emphasis should be on improving the affordability of the whole audit process as well as achieving lower audit fees. **A several proposals made in the consultation will add to both the administrative and financial burdens faced by local authorities.** This fails to meet the Government's previously stated intention to reduce the burdens on local authorities. Local authorities must not be faced with higher overall costs and additional layers of bureaucracy as a result of the Government's decision to disband the Audit Commission. In addition, the future audit market and the associated costs will be influenced by the form in which the ex-Audit Commission auditors enter the market.

Overall, the outcome must present the potential for being cheaper than current arrangements whilst remaining effective, and therefore the design principles should be:

- **regulation** of the external auditors by the Financial Reporting Council in a manner that mirrors the private sector and allows more audit firms to enter the market subject to meeting the professional standards;
- **codes of practice** produced by the National Audit Office;
- an audit committee but discharged by councillors who already provide that **independent scrutiny** role removing the need and cost for having independent audit committee members; and
- **not requiring the statutory involvement** of unitary councils in controlling the audit of smaller bodies.

Although the Minister is of a mind to improve the accountability of local authorities to local people and it is contended that freeing up the audit process will facilitate this. However, what local people will gain from having more say in the audit of local authority accounts is debatable. The local authority accounts and the audit process are already subject to considerable public scrutiny through FOI requests and specific provisions in statutes, such as

the right of inspection and objection, access to auditors and more latterly transparency reporting.

2. Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?

No comment

3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Yes, but there needs to be full and proper consultation on the Code of Practice.

4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Yes

5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

The Financial Reporting Council provided that they can prove they have both the resource and expertise to undertake the role.

6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

The question to consider is not one of balance but whether the appointed auditor is sufficiently qualified / experienced to provide high quality audit. New firms should ensure that they satisfy these criteria if they wish to enter the market. If the Financial Reporting Council is the regulator then they could include any newer bodies and effectively give them a monitored trial period. New firms should have key personnel with previous local government external audit experience and there should be sufficient ex-Audit Commission staff available.

7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

There is no need for any additional criteria as this might restrict new firms from entering the market. Auditors should have the skills and experience required to do the job. Market entrants should satisfy these basic requirements to be eligible for public audit. Maybe there is a scale issue here – smaller bodies may call for less sector experience?

Key personnel with previous local government external audit experience are widely available. Market forces will probably limit the number of audit firms and will be influenced by how ex-Audit Commission staff are employed in future, including whether any mutual(s) formed of ex-Audit Commission staff are geographically based. The impact of the organisation of ex-Audit Commission staff may change views expressed in this response.

Capacity of audit firms may be an issue. Firms will be working to tight deadlines and require specialist knowledge. The ability of audit firms to react to unforeseen events and business

continuity issues for example will be a key criterion in evaluating tenders. This may restrict the ability of smaller audit firms to win work.

8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

All local public bodies should be categorised as public interest entities.

9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

It should be up to the overall regulator to determine whether they undertake additional assurance gathering. In principle this should not be needed as the normal arrangements should satisfy the public interest test. The key driver being local audit regulation needs to be cost effective, proportionate, and compatible with localism.

10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

For the overall regulator to determine but at a minimum there should be links to the supervisory body for companies defined as public interest bodies. This is because external auditors work across both the private and public sector.

11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

Yes, the assumption is that councils will procure regionally. However, audit committees should have clear responsibilities to the governing body of the reporting entity and conflicts of interest may arise from joint audit committees. A concern is that the timescale for introducing the new audit arrangements may be by April 2012. Therefore, to comply with the correct procurement regulations and processes, the legislation and regulations need to be in place no later than the end of September 2011. Otherwise, the Audit Commission will need to run the process for 2012/13.

It is not clear how local people would be able to have any real influence over the appointment of auditors unless they have representation on the audit committee.

Authorities currently have specific rules regarding the commissioning of services or procurement of supplies in order to safeguard public funds, ensure value for money, and assessing suppliers' ability to deliver the services. In a significant number of cases it is a requirement that before any tenders can be accepted a report must go before members so they can independently challenge the process. It seems the consultation paper does not recognise this fact and is concentrating on establishing a commissioning process that delivers flexibility and independence in the process that in reality either currently exists or is not required.

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

The assumption that there needs to be independent members is not supported as councillors currently fulfil the audit committee role successfully. Importantly, councillors are democratically elected and not accountable to the local public.

If independent audit committee members are being appointed and remunerated by a local authority, how truly independent are they?

Regarding the other criteria for determining an independent member, being a relative or close friend of a member or an officer of the authority should be declared but not necessarily a bar to appointment. The selection process needs to ensure skills are relevant and that value can be added by any independent members. Barring a member or officer of another relevant body will limit individuals with significant relevant and recent experience, and therefore be counter productive.

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

The primary requirement is an objective and independent frame of mind; thereafter the skills and experience, including financial expertise, will be the deciding criteria. The skills needed to chair the committee are different and may be different from someone with financial expertise. However all members do need to be aware of the sector, finance, and the wider role governance role that existing audit committees undertake.

Hence, the view that local authorities who have adopted a cabinet system have sufficient authority members who are independent of the key decision making body to carry out an effective audit committee role. Therefore, a mandatory requirement to appoint independent audit committee members is not supported.

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Yes, it is anticipated that it will be difficult to source suitable independent members. Hence, this is another reason why the use of existing councillors is supported. Existing co-opted members receive expenses only. Determining any remuneration should be a matter for the independent remuneration panel, and likely to be comparable to an elected member.

As a result any specified independent members would add to the council's costs and provide little additional benefit for local tax payers.

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Option 1 is the default although the independence of the auditor appointment is not seen as an issue. Ideally, option 2 gives the committee a role that adds value. However, currently audit committees have a greater scrutiny role in terms of reviewing financial performance of the organisation, consideration of internal audit reports, annual governance statements, risk, and other constitutional and ethical issues. These roles are better fulfilled by the authority

itself rather than the type of independent audit committee being proposed in the consultation paper.

16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

Option 1

17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Only the basic mechanisms should be specified in legislation to provide consistency and should be backed up by guidance reflecting the wider governance responsibilities of an audit committee. The guidance could be maintained by CIPFA.

Any statutory requirement for an audit committee would be new but guidance from CIPFA already exists and is followed, and non-compliance is reported in the Annual Governance Statement. This would leave local audit committees free to decide on their remaining functions and roles with the audited body.

18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Yes, a statutory code of practice.

19. Is this a proportionate approach to public involvement in the selection and work of auditors?

No, there is no role for the public in the selection of the external auditor. It is a matter for the statutory regulator and the Council. Practically, even if expressions of interest are used this may not be the same firms as those who tender. The public are not involved in commissioning any other services that are much more vital to the local community. In addition, there needs to be compliance with the EU procurement regulations.

20. How can this process be adapted for bodies without elected members?

No comment

21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

Option 2 – councils are responsible organisations and would make such an appointment but the power of the Secretary of State to intervene provides further assurance.

22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

Yes, upon appointment.

23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

The Secretary of State and the National Audit Office should be informed.

24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Yes, apply the same appointment terms applicable to private sector audits. If appointment terms are set too short then the burden on the audited body tends to increase as new auditors have to come in and understand systems, and develop relationships.

25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Yes

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Yes

27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Yes

28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Yes, but there could be cost considerations if that differs greatly from the current code of responsibilities of auditors.

29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?

Option 1 is preferred as it reduces the burden with option 2 being acceptable.

30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

No, although communicating information to the public should be encouraged and authorities should be free to publish their own information including summarised or simplified accounts, and not to have them audited.

31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

No, see Q30.

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Limited

33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

There should be no statutory requirement for an annual report but good practice guidance could be provided by CIPFA.

34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

Yes, the way it is investigated and then reported is more of a factor.

35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Yes, subject to the checks and balances provided by professional ethics and codes of practice.

36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Yes

37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Yes

38. Do you agree that we should modernise the right to object to the accounts? If not, why?

Yes, the process presently in place is rarely used given the other means of access open to anyone with an interest in local authorities. However, local electors should have the right to object to items within the accounts. This is a fundamental right of electors and surely fits in with idea of localism and greater involvement of citizens. Objections to the accounts have been used as a means of trying to alter policy rather than any inherent failure of the financial statements.

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Yes

40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Yes, but not with regard to the affairs of their clients. This should be kept under review as the scope and cost of this work would ultimately have to be met by the public sector bodies concerned.

41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

(i) No impact, but there needs to be recognition that some of the requests passed to authorities may well then be passed onto the auditors incurring duplication of effort.

(ii) Potential increase in fees, see Q40.

42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Option 2, there should not be a legal requirement for the involvement of other councils but fees need to be controlled and procuring with other councils in the region should be encouraged.

43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

No, the statutory involvement of other councils is wrong in principle.

44. What guidance would be required to enable county/unitary authorities to:

a) Appoint independent examiners for the smaller bodies in their areas?

b) Outline the annual return requirements for independent examiners?

Who should produce and maintain this guidance?

The table presented should be amended to include the expected role and indicative fees would assist in the engagement as the smaller bodies are independent of the council. Any other guidance should come from the Financial Reporting Council.

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

The optional use of joint audit committees and procurement should be encouraged to mitigate this risk.

46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Services across authorities are not uncommon and there tends to be an appointed lead authority for any such activities.

47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

An option could be merge the lower bands and have up to £250,000, £250,000 to £500,000 and £500,000 upwards.

48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

The involvement of other councils should not be assumed but the optional use of joint audit committees should be encouraged to mitigate the risk of failing to take action. Any perceived failures reported by members or the public may need to be reported to the Secretary of State.

49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

A system needs to be designed that ensures accountability that does not rely on the involvement of unitary/county councils.

50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

This would depend upon the overall intent which could be that set out under Q49.



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From the Permanent Secretary

Local Authority Chief
Executives

2 June 2011

Dear Local Authority Chief Executives,

UPDATE ON WORK ON THE FUTURE OF LOCAL AUDIT

In August last year the Secretary of State announced plans to disband the Audit Commission and refocus local public audit. Since then, the feedback from local government has been generally supportive of the decision. We have a shared goal of making progress on a robust new local audit framework, and on shutting down the Commission quickly and efficiently, so that local government can appoint auditors as soon as possible. I want to update you on what we are doing to secure this.

Since the announcement, we have been carefully considering how to deliver the changes as cost effectively and quickly as possible. We are out to consultation on proposals for the new audit framework, and keen to hear your views. The consultation runs until 30 June, and the document is at: <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>. We plan to provide a response to the consultation in the autumn, and to publish draft legislation, and then to bring forward primary legislation as soon as Parliamentary time allows.

We have also been looking at how to transfer the audit work from the Commission's in-house audit practice to the private sector. We have taken external advice on how best to achieve this. We need to ensure the public purse is protected, and that you get high quality and value for money audit services until you can start appointing your own auditors.

There are two basic options, either to outsource all the audit work (30% of which is already done by the private sector), or to create an independent company which could be sold. Our initial view, drawing on the work of our external advisers, is that outsourcing could be the better option – potentially quicker, more straightforward and better value for money. We have, therefore, asked the Audit Commission to begin substantive preparatory work for outsourcing the 2012/13 audits. This means we will be able to move quickly if Ministers take a final decision to go down this route. The attached press notice provides more details.

We would ensure that local government is fully engaged in the process of outsourcing and the appointment of auditors. We will ensure that whichever option is chosen provides high quality and value for money. We expect local government to share in the benefit of any savings that are achieved. We are clear that outsourcing would not delay the point at which you are able to appoint your own auditors, compared with the sale option. My department is ready to work closely with local government and the Commission to ensure a smooth transition.

Once Ministers have made a final decision on how best to transfer the in house practice to the private sector, they will inform Parliament in the usual way. I will keep you informed of developments and the programme will be kept under review to ensure the best possible outcome.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Bob Kerlake'. The signature is written in a cursive style with a large initial 'B'.

SIR BOB KERSLAKE

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