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To: Governance and Audit Committee – 25 September 2012

Subject: **Local Audit Bill**

Classification: Unrestricted

Summary: An update on the Local Audit Bill consultation

FOR INFORMATION

Introduction

1. In January 2012 the Government published its response to the consultation carried out in 2011 on the future of local public audit. A draft Bill was published in July 2012 for further consultation with a closing date of 31 August (over the Summer recess).
2. The key principles have not changed significantly since the Government's response in January 2012 and a number of areas will be subject to further regulations from the Secretary of State.
3. Annex 1 includes a briefing prepared by the CIPFA Better Governance Forum providing information in relation to the draft Bill. The consultation to the draft has closed but a response was provided expressing the following key comments.

Issues for Committee to note

4. *Independent Audit Appointment Panel*
The draft Bill proposes that an Independent Audit Appointment Panel should be independently chaired with a majority of independent members. Its function would be:
 - To advise the authority on the selection and appointment of an auditor to audit its accounts
 - To advise the authority on the maintenance of an independent relationship with its external auditor;
5. This would mean the Governance & Audit Committee in its current format would not be able to fulfil this role due to its membership structure. We have responded that we believe that this will pose practical difficulties and unnecessary costs. In particular it would be very difficult to appoint independents with the right qualifications and experience to fill this role as well as all other aspects of being an Audit Committee member. The only

concession in the latest Bill is that it now allows the Panel to be appointed jointly with other authorities and for authorities to undertake joint appointment of external auditors. This is likely to be the only realistic solution for the Council if the Bill becomes statute i.e. the Council could continue to benefit from a Governance & Audit Committee with the current structure for all business except appointment of the external auditors. This role would fall to an independently constituted smaller audit panel with representation from a number of authorities, charged with recommending a joint appointment for all the public bodies represented.

Regulations of appointed audit firms

6. The draft Bill proposes that The Financial Reporting Council should be the overall regulator of appointed audit firms with all local public auditors placed on a register kept by professional accountancy bodies who would act as Recognised supervisory bodies. The FRC will have responsibility for monitoring the quality of major audits though this has still to be defined.
7. The move to use the FRC as the regulator seems entirely sensible and in line with the regulation of private company auditors.

Objection to accounts

8. The Bill proposes to retain the right to object to the accounts but to provide a power to give the auditor discretion to reject vexatious, repeated or frivolous objections.

Grant certification

9. The intention has been restated to phase out existing grant certification requirements which would mean that if there was a requirement for external certification this would need to be identified and procured separately.

NFI

10. The draft Bill confirms support for the continuation of the NFI and consults on the best provider to serve as the operational provider of the service. We believe that the National Fraud Authority will be best placed to undertake this role due to publication of the local government strategy "Fighting Fraud Locally" and their continued engagement with local authorities.

VFM studies

11. The draft Bill provides new powers to the National Audit Office to undertake studies regarding the economy, efficiency and effectiveness with which local government uses its resources in undertaking functions. The intention of this work is to enhance the assurance that NAO provides to Parliament and support learning across the sector. We have responded that it is important that the NAO works together with sectors involved in improvement e.g. LGA and the inspectorates to ensure that there is no duplication and that the process does not become unnecessarily burdensome.

Recommendations

12. Members of the Committee are asked to note the update provided in this paper in relation to the Local Audit Bill.

Appendices

Appendix 1 CIPFA Better Governance Forum summary of Draft Bill and points to note

Neeta Major
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