

Wolverhampton City Council

OPEN INFORMATION ITEM

Audit Committee

Date **30 January 2012**

Originating Service Group(s) **DELIVERY / OCE**

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Title/Subject Matter **THE GOVERNMENT RESPONSE TO THE FUTURE OF LOCAL
AUDIT CONSULTATION**

SUMMARY

That the report be noted.

1. PURPOSE AND BACKGROUND

- 1.1 Members will be aware of the Government's announcement in August 2010 of their intention to disband the Audit Commission. Following this announcement, consultation on the options for transferring the audit work of the Audit Commission's in-house audit work has been carried out with all parties affected by the changes.
- 1.2 In 2011 the Department for Communities and Local Government (DCLG) sent out a consultation document seeking public bodies views on the options for transferring the audit work of the Audit Commission's in-house audit practice to the private sector through a series of procurement exercises.
- 1.3 The consultation process has now been completed and DCLG has issued its response, details of which are shown below.

2. DETAILS

- 2.1 The Government is to legislate for a system of local appointment under which all local public bodies with income/expenditure over a threshold (currently £6.5m) will be under a duty to appoint an auditor who must be on the register of local public auditors.
- 2.2 DCLG consider that requiring the appointment of an auditor to be undertaken by the full council (or equivalent for non-local government bodies) on the advice of an independent audit committee is the most practical and effective way of ensuring independence of appointment. Transparency in the appointment process will also be an important part of ensuring auditor independence.
- 2.3 They have accepted that it might be difficult for public bodies to find enough suitable independent members to ensure a majority of independent members sit on an audit committee. Therefore, in order to distinguish between the existing traditional audit committees and the role they propose for such a committee in the appointment process, they have said that advice on the procurement and appointment of the auditor will be made by an Independent Audit Appointment Panel.
- 2.4 Responsibility for the final selection of the auditor and engagement of the auditor on a contractual basis will rest with the local public body. However, that appointment must be made by the full council (or its equivalent) on the advice of such an Independent Audit Appointment Panel, independently chaired, with a majority of independent members. Where the body already has an independent audit committee, they may wish to use that committee to meet this requirement.
- 2.5 The consultation identified that a number of local public bodies signalled that they were interested in undertaking joint procurement exercises and sharing Independent Audit Appointment Panels or independent members. DCLG are to put in place arrangements to facilitate such an arrangement and intend to frame requirements in a way that will allow local public bodies to share appointment panels (and therefore independent members) to ease administration burdens and reduce costs. Local public bodies will be able to choose the model which suits their circumstances, and will have the flexibility to work with other bodies to jointly procure an auditor and reduce the costs of meeting this requirement.
- 2.6 Further details of these proposals will be finalised and issued as soon as possible. Once these are available, the Council will need to consider the most suitable path to take in

establishing, or becoming part of, an Independent Audit Appointment Panel and in procuring its public auditor.

2.7 The Government's response to the consultation also provides further guidance on the process to be followed in the following areas:

- Registration of Auditors
- Eligibility for Registration
- Monitoring and Enforcement
- Duty to Appoint an Auditor
- Role of the Independent Audit Appointment Panel
- Involvement of the Public in the Appointment of an Auditor
- Failure to Appoint an Auditor
- Rotation of Audit Firms and Audit Staff
- Resignation or Removal of an Auditor
- Auditor Liability
- Scope of Local Public Audit
- Public Interest Reporting
- Provision of Non-Audit Services
- Public Interest Disclosure
- Freedom of Information

The Council's original response to the consultation and where the Government's proposals differ

2.8 The Council's original preference was to retain the current system whereby the external auditors were appointed by an independent organisation such as the National Audit Office. The Council believed that it could be costly and time-consuming to appoint its own external auditors.

The Council also questioned whether the joint appointment of auditors would be a good idea, as it may not open up the market as larger contracts may tend to favour larger firms, restricting the opportunities for new entrants to gain experience.

Obviously, both of these differ to the Government's new proposals. However, the Council's response did state that overall if a change is to be made, then the design principles that had been identified, did appear reasonable.

Timetable

2.9 The Audit Commission is currently in the process of outsourcing all of its audit work. It has previously appointed PricewaterhouseCoopers LLP (PwC) to audit the 2011/12 accounts of the Council. The Commission will be making a new auditor appointment for 2012/13. New contracts will be awarded for three or five years, commencing from the audit of the accounts for 2012/13. As this procurement exercise is still ongoing they will not be in a position to make the new auditor appointment before 1 September 2012.

2.10 As an auditor must be in place at the start of the financial year, to deal with any issues relating to the 2012/13 accounts, they are proposing to make an interim auditor appointment, by extending the period of the Council's current external auditors (PwC), to

cover the period from 1 April 2012 to 31 August 2012. It is not expected that the interim auditor (PwC) will need to undertake any substantive audit work relating to 2012/13. Their role will be limited to keeping a watching brief. Provided this is the case, the Commission will meet any costs incurred by the interim auditor.

Future auditor appointment

- 2.11 Following the award of contracts in spring 2012, the Audit Commission will consult with the Council on the appointment of the new auditor to audit the 2012/13 and future years' accounts. They will set out, early in 2012, the consultation process they will follow.

3. FINANCIAL IMPLICATIONS

- 3.1 This report is for information purposes only and therefore has no direct financial implications. There may be savings generated or additional costs incurred when new auditors are appointed and their fees agreed. Members will be informed when the new audit arrangements are finalised. [GE/30012012/N]

4. LEGAL IMPLICATIONS

- 4.1 The Government intends to legislate for a system of local appointment under which all local public bodies with income/expenditure over a threshold (currently £6.5m) will be under a duty to appoint an auditor who must be on the register of local public auditors. Responsibility for the final selection of the auditor and engagement of the auditor on a contractual basis will rest with the local public body. However, that appointment must be made by the full council (or its equivalent) on the advice of an Independent Audit Appointment Panel, independently chaired, with a majority of independent members. [MW/09012012/N]

5. EQUAL OPPORTUNITIES IMPLICATIONS

- 5.1 There are no direct equal opportunities implications arising from this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from this report.

7. SCHEDULE OF BACKGROUND PAPERS

- 7.1 Consultation Paper – Government response to the future of local audit consultation (CLG – January 2012)