

# **Report to the Finance and Performance Management Cabinet Committee**



**Epping Forest  
District Council**

**Report Reference: FPM-004-2011/12**

**Date of meeting: 20 June 2011**

**Portfolio: Finance and Economic Development.**

**Subject: Consultation – Future of Local Public Audit.**

**Responsible Officer: Bob Palmer (01992 564279).**

**Democratic Services: Gary Woodhall (01992 564470).**

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## **Recommendations:**

**(1) To consider what response, if any, the Committee wishes to make to the Government consultation on the future of local public audit.**

## **Executive Summary:**

The Government have issued a consultation paper entitled "Future of local public audit", which has a closing date for responses of 30 June 2011. The consultation is over sixty pages and has fifty detailed questions, most of which are either not relevant to the Council or are too complex to easily form a view on. However, there is a proposal about the future structure of audit committees that is relevant and would impact on the Council.

## **Reasons for Proposed Decisions:**

To determine if a response is to be made to the consultation.

## **Other Options for Action:**

Members could decide to not respond, to respond in part or to respond in full to all fifty questions.

## **Report:**

1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and refocus audit on helping local people hold their Councils and other public bodies to account for local spending decisions. The Secretary of State's announcement on 13 August contained the following overall intentions and policy aims:

- (a) To disband the Audit Commission and transfer the work of the Commission's in-house audit practice to the private sector;
- (b) To enable local authorities to appoint their own independent external Auditors;
- (c) To provide a new framework for the audit of local health bodies who are also currently audited via the Audit Commission; and
- (d) To ensure that all local public bodies would still be subject to robust auditing.

2. The consultation paper sets out the Government's vision for the future of local audit. The consultation is wide ranging and both provides details of the Government's proposals to change the audit of local councils and other local bodies and also consult on a range of potential options where the Government has yet to establish its intentions. The Government's vision for local public audit is based on four principles:

(a) Localism - Local public bodies should be free to appoint their own independent external Auditors from a more competitive and open market;

(b) Transparency - Local public bodies will become increasingly accountable for their spending decisions to the people who provide their resources;

(c) Lower audit fees; and

(d) High standards of auditing - External audit should remain both robust, efficient and follow the established principals of public audit.

3. The consultation document runs to more than sixty pages and includes a list of fifty questions, which are copied at Annex 1. A full copy of the consultation can be obtained either from the Director of Finance and ICT or the CLG website using the address below:

- [www.communities.gov.uk/publications/localgovernment/localpublicauditconsult](http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult)

4. Many of the questions are about the overall system of audit and regulation and as such are either not relevant to the Council or are too complex to easily form a view on. Rather than attempting to provide a very detailed paper to promote an understanding of the wider issues, it was felt a more focused paper on the potential effect on the structure of the Audit and Governance Committee would be more useful. Page 26 of the consultation includes detail of the Government's preferred structure for audit committees. This paragraph states "*we envisage that in the new system an Audit Committee could be structured in the following way:*

(a) *The Chair should be independent of the local public body; the Vice Chair would also be independent to allow for the possible absence of the Chair.*

(b) *The elected Members on the Audit Committee should be non executive, non Cabinet Members, sourced from the Audit body and at least one should have recent and relevant financial experience;*

(c) *There would be a majority of Members of the Committee who are independent of the local public body."*

5. These proposals would require significant change to the current Audit & Governance Committee structure. Presently the Chair is an elected Member and the Vice Chair is independent, they would now both be required to be independent. There are also currently a majority of elected Members on the Committee, that position would now be reversed and it would be the independent Members who would be in the majority.

6. This report will also be presented to the Audit and Governance Committee to seek their views. The views of this Committee will be reported to the Audit and Governance Committee and whilst a jointly agreed response, or decision not to respond, would be preferable it would be possible to make two different responses if necessary.

### **Resource Implications:**

The consultation includes the possibility of paying independent Members to encourage sufficient suitable candidates to come forward. If this was to become a requirement there would be some additional costs.

**Legal and Governance Implications:**

This is only a consultation, but because of the potential impact on the Audit and Governance Committee the officer Corporate Governance Group have considered the consultation and their view is set out below.

**Safer, Cleaner, Greener Implications:**

None.

**Consultation Undertaken:**

The Corporate Governance Group (CGG), which comprises of the Acting Chief Executive, the Chief Finance Officer, the Monitoring Officer, the Assistant to the Chief Executive and the Chief Internal Auditor, has considered the consultation and the key issue of the future composition of the Audit and Governance Committee. CGG agreed with the proposal that the Audit and Governance Committee should be independent from the Council and so endorsed the recommendations that the majority of Members on Audit and Governance should be independent and also that the Chairman should be independent. This is a model that has been used for the Standards Committee, which has discharged its functions effectively.

**Background Papers:**

CLG Consultation document – Future of local public audit.

**Impact Assessments:**

Risk Management

With audit committees taking on the responsibility for the appointment of the external auditor, there is a greater need for such committees to be, and be seen to be, independent. A risk exists that the credibility of the external auditor and the audit committee could be called into question.

Equality and Diversity:

*Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications?* No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* N/A

*What equality implications were identified through the Equality Impact Assessment process?*  
N/A

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*  
N/A