



## AUDIT COMMITTEE REPORT

<b>Report Title</b>	<b>Future of Local Public Audit</b>
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**AGENDA STATUS: PUBLIC**

<b>Audit Committee Meeting Date:</b>	27 <sup>th</sup> June 2011
<b>Policy Document:</b>	No
<b>Directorate:</b>	Finance and Support
<b>Accountable Cabinet Member:</b>	Cllr Alan Bottwood

### 1. Purpose

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- 1.1 To present the draft response (Appendix 2) to the CLG consultation (Appendix 1) on the Future of Local Public Audit.

### 2. Recommendations

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- 2.1 To consider and approve a response to the CLG consultation on the Future of Local Public Audit.

### 3. Issues and Choices

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#### 3.1 Report Background

- 3.1.1 An audit by external auditors comprises a review of financial statements which results in the publication of an independent opinion on whether those statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and present a true and fair view. The statements, together with the auditor's opinion on them, must then be published, and this should be done by 30 September following the financial year end.
- 3.1.2 The audit of public bodies plays a key role in ensuring that those responsible for handling public money are held accountable for the use of that money. Public audit strengthens accountability, both to the elected or appointed members who make decisions about the allocation of resources, and to the consumers and beneficiaries, taxpayers and the wider community.

- 3.1.3 Currently, public audit also provides assurance on bodies' arrangements for managing their finances properly, including their arrangements for value for money and to safeguard public money.
- 3.1.4 The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 (as amended). Since its inception in 1983, the Audit Commission has acted as the regulator, commissioner and provider of local audit services.
- 3.1.5 The larger bodies (broadly those with annual income or expenditure of more than £6.5m) must produce a "statement of accounts", based, as from the 2010/11 financial year, on International Financial Reporting Standards as applied by the *Code of Practice on Local Authority Accounting in the United Kingdom*, published by CIPFA/LASAAC. The statement must also conform to specific requirements set out in the Accounts and Audit Regulations and other legislation. A statement of accounts includes all the elements that would be expected in a comprehensive set of accounts, including:
- movement in reserves statement
  - comprehensive income and expenditure account
  - balance sheet
  - cash flow statement, and
  - supporting notes, including a summary of significant accounting policies
- 3.1.6 For smaller bodies the audit is a 'limited assurance' – a simpler, more proportionate, form of external scrutiny than a full audit.

## **3.2 Issues**

- 3.2.1 The consultation document relates to the future of local audit. The proposals are based on four principles:
- Localism – freedom to appoint independent external auditors from a more competitive and open market.
  - Transparency – local public bodies will become increasingly accountable for their spending decisions.
  - Remove the overheads charged by the Audit Commission, delivering a framework which sees a reduction in the overall cost of audit to local bodies.
  - High standards of auditing, following the established principles of public audit.
- 3.2.2 The consultation sets out proposals which would see all local public bodies with a turnover of over £6.5m appointing their own independent auditor. It is proposed that this appointment would be made on the advice of an independent audit committee.
- 3.2.3 Proposed regulation would be under a system which similar to that for the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. It is proposed that the National Audit Office will set the code of audit practice; however there are a number of options for the scope of audit.

3.2.4 The consultation document also proposes how transparency will be increased in the new framework and how audit will be structured in a proportionate way for auditing smaller bodies with a turnover below £6.5m.

3.2.5 The response to the consultation needs to balance the need for providing robust external audit with the need to reduce costs across the public sector.

### **3.3 Choices (Options)**

3.3.1 To consider and approve the proposed response to the consultation document.

## **4. Implications (including financial implications)**

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### **4.1 Policy**

4.1.1 None.

### **4.2 Resources and Risk**

4.2.1 There are no specific resources and risk implications arising from this report.

### **4.3 Legal**

4.3.1 There are no specific legal implications arising from this report.

### **4.4 Equality**

4.4.1 There are no specific equalities implications arising from this report.

### **4.5 Consultees (Internal and External)**

4.5.1 The Director of Finance and Support, has have been given opportunity to comment and feedback on the attached response.

### **4.6 How the Proposals deliver Priority Outcomes**

4.6.1 Protecting and enhancing the reputation of Northampton Borough Council.

### **4.7 Other Implications**

4.7.1 Not applicable

## **5. Background Papers**

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Appendix 1 – Future of Local Public Audit – Consultation Document

Appendix 2 – Future of Local Public Audit – Proposed Response

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