

**AUDIT AND PERFORMANCE MANAGEMENT COMMITTEE**

**26 MARCH 2012**

1. **GOVERNMENT RESPONSE TO FUTURE OF LOCAL AUDIT CONSULTATION**

Report of the Chief Fire Officer

RECOMMENDED

- 1.1 THAT Members note the Government response to the future of local audit consultation.
- 1.2 THAT Members note the progress made in putting in place transitional arrangements to support the transfer of the Audit Commission's public audit work into the private sector.

2. **PURPOSE OF REPORT**

This report is submitted to inform the Committee of the Government response to the future of local public consultation and the potential impact of forthcoming legislation upon the Authority. In particular, the future approach to procuring external auditors and the role of the Independent Audit Appointment Panel should be noted.

3. **BACKGROUND**

- 3.1 Following its decision to abolish the Audit Commission the Government set out its vision for the audit of public bodies in the Future of Local Audit Consultation publication. This consultation required all public bodies to consider 50 questions as part of a structured approach to managing consultation.

West Midlands Fire and Rescue Authority (WMFRA) submitted its response in June 2011. Members of the Audit and Performance Management Committee (APMC) contributed to and informed the WMFRA response at consultation sessions held on the 6 and 13 June 2011. The consultation response was approved by the Authority at its meeting on 27 June 2011.

3.2 Essentially, this consultation set out how the Government intends to redesign the audit public framework. The vision for the future delivery of local public audit was based upon the following four design principles:

- localism and decentralisation – freeing up local bodies to appoint their own auditors;
- transparency – ensuring that the results of the audit work are easily accessible to the public;
- lower audit fees – achieving a reduction in the overall cost of audit; and
- high standards of auditing – ensuring that there is effective and transparent regulation of public audit practices which supports the high quality audit.

3.3 In August 2011 it was announced that the Audit Commission in house audit practice work would be outsourced through a procurement exercise. Contracts will be awarded to private practice auditors for a period for either three or five years. The contract period will not be determined until the contracts are awarded in Spring 2012. This means that public bodies will not be required to appoint their own private practice auditors until the end of the three or five year contract term. It is intended that private practice auditors will be in place to undertake the audit of the 2012/13 audit year (see transitional arrangements 3.6 below).

3.4 In January 2012, the Government issued its response to the consultation exercise in the form of the Government Response to the Future of Local Audit Consultation publication. This document is attached as Appendix 1 to this report.

3.5 The main details and proposed changes following consultation are as follows:

- The Government intends to bring forward legislation to close down the Audit Commission as soon as Parliamentary time allows. A draft Bill on the future public audit framework will be published for pre-legislative scrutiny in the Spring of 2012.
- The Government has reiterated its commitment to driving down the cost associated with external audit and the new framework. The audit fee for WMFRA 2012/13 audit- the first to be undertaken by a private audit practice is 10% lower than the last Audit Commission scale fee originally agreed for the 2011/12 audit year.

- The regulatory framework will be consistent with that of the private sector and follow the principles of the Companies Act 2006.
- The consultation document had proposed that public body Audit Committees' should have an independent Chair and be made up of a majority of independent Members. However, it has been accepted that the sourcing of sufficient independent Members with sufficient skill sets will prove difficult for public bodies. It has also been recognised that the depth and breadth of Audit Committee activity varies between public bodies and has been designed to suit local circumstances. The Government does not wish to remove this flexibility.
- However, in order to meet the requirements of localism, decentralisation and transparency; legislative provision will be made that will require (ordinarily) an Independent Auditor Appointment Panel to appoint the auditor for non elected bodies, which is how Fire and Rescue Services are defined in Annexe A of the attachment. There may be circumstances where it is appropriate for Fire Authority to make an appointment on the advice of the panel. However, where this is the case transparency (i.e. publication of that advice) will be an important part of the appointment process. The Independent Audit Appointment Panel will have an independent Chair and a majority of independent Members and will also advise WMFRA on the independence, removal and resignation of auditors.
- The consultation identified that a number of local public bodies signalled that they were interested in undertaking joint procurement exercises of auditors and sharing Independent Audit Appointment Panels or independent members. Arrangements will be put in place to 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.
- The scope of local public audit will remain broadly as it is now. Auditors of local public bodies will be required to satisfy themselves that accounts have been prepared in accordance with necessary directions; proper practices have been observed and proper arrangements are in place for securing value for money in the use of resources. The detail of how auditors will fulfil these requirements will be set out in a code of audit practice. The Government is currently considering how best to adopt a risk

based approach to the value for money element of this work and this will need to be developed prior to implementation.

- WMFRA will be required to run a procurement process every five years for its audit services. There will be no bar on the incumbent supplier being reappointed as a result of this process. However, safeguards will be in place as to the length of time key audit personnel can continuously perform work for a public body and legislation will make provision for this.
- The Government response confirms that further discussions will be held with local authorities, other public bodies and the audit sector to flesh out the underlying detail of the framework and how it might be implemented.

### **Transitional Arrangements**

- 3.5 In preparation for the transfer of the Audit Commission's public body audit work to private practice, the Audit Commission has commenced the process of outsourcing its in-house practice.
- 3.6 The public audit work undertaken by the Commission has been split into 10 geographical lots. The WMFRA public audit requirements are encompassed within the West Midlands lot which has a notional value of £8.9M. It is expected that the lots will be awarded and announced in April 2012. The awarded contract will run for either three or five years. WMFRA will be consulted upon the appointment of the auditor.
- 3.7 In lieu of the contract award the Commission has proposed a scale fee and work programme for the delivery of the 2012/13 audit work. The proposed scale fee for the delivery of the 2012/13 is £77,723. It is hoped that the procurement process will realise further reductions in the cost of audit to audited bodies in the form of lower scale fees. However, WMFRA scale fee for 2012/13 will not be confirmed until the conclusion of the outsourcing exercise. The final work programme and scale of fees for 2012/13 will be published in April 2012.
- 3.8 It is anticipated that the newly appointed private practice auditors will be in place by September 2012. This will enable them to undertake the 2012/13 year audit work.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report do not relate to policy change.

5. **LEGAL IMPLICATIONS**

A draft Bill will be published for pre-legislative scrutiny in Spring 2012, which will allow for examination and amendments to be made before formal introduction to Parliament; and in advance of the introduction of the Audit Bill as soon as Parliamentary time allows.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising in this report.

**BACKGROUND PAPERS**

Department for Communities and Local Government, Future of Local Public Audit Consultation publication, March 2011.

Audit and Performance Management Committee report, 6 June 2011, Future of Local Public Audit Consultation.

Audit and Performance Management Committee workshop, 13 June 2011, Future of Local Public Audit Consultation.

Fire Authority paper, 27 June 2011, Future of Local Public Audit Consultation.

Audit and Performance Management Committee, 10 October 2011, Scale of Fees and Work Programme 2012/13.

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