

**NORTHAMPTON BOROUGH COUNCIL
AUDIT COMMITTEE**

Your attendance is requested at a meeting to be held in the
The Jeffrey Room, St. Giles Square, Northampton, NN1 1DE.

on Monday, 27 June 2011
at 6:00 pm.

**D Kennedy
Chief Executive**

AGENDA

1 APOLOGIES

Please contact Michelle Allan on 01604 837355 or
mallan@northampton.gov.uk when submitting apologies for
absence.

2 MINUTES

3 DEPUTATIONS / PUBLIC ADDRESSES

4 DECLARATIONS OF INTEREST

**5 MATTERS OF URGENCY WHICH BY REASON OF
SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE
OPINION SHOULD BE CONSIDERED**

**6 COMMITTEE TERMS OF REFERENCE-AUDIT PLAN
2011/12**

7 IBS CREDITORS INTERNAL AUDIT REPORT C Ansell, Ext 8584

**8 IFRS AND CHANGES TO THE ACCOUNTS AND AUDIT
REGULATIONS 2003** R Smith, Ext 8046

9 FUTURE OF LOCAL PUBLIC AUDIT - CONSULTATION B Lewis, Ext 7167

10 INTERNAL AUDIT ANNUAL OPINION REPORT C Dickens, Internal
Auditor
(PWC)

11 EXTERNAL AUDIT UPDATE N Bellamy, External
Auditor (The Audit
Commission)

12 EXCLUSION OF PUBLIC AND PRESS

THE CHAIR TO MOVE:

“THAT THE PUBLIC AND PRESS BE EXCLUDED FROM THE REMAINDER OF THE MEETING ON THE GROUNDS THAT THERE IS LIKELY TO BE DISCLOSURE TO THEM OF SUCH CATEGORIES OF EXEMPT INFORMATION AS DEFINED BY SECTION 100(1) OF THE LOCAL GOVERNMENT ACT 1972 AS LISTED AGAINST SUCH ITEMS OF BUSINESS BY REFERENCE TO THE APPROPRIATE PARAGRAPH OF SCHEDULE 12A TO SUCH ACT.”

Public Participation

Members of the public may address the Committee on any non-procedural matter listed on this agenda. Addresses shall not last longer than three minutes. Committee members may then ask questions of the speaker. No prior notice is required prior to the commencement of the meeting of a request to address the Committee.

AUDIT COMMITTEE

Monday, 21 March 2011

PRESENT: Councillor Woods (Chair); Councillor Collins (Deputy Chair); Councillors Davies, Malpas (In place of Hawkins), Palethorpe, Wilson and Yates
APOLOGIES: Councillor Jean Hawkins and Councillor Judith Lill

1. MINUTES

The Minutes of the meeting held on 10 January 2011 were confirmed and signed by the Chair as a true record.

2. DEPUTATIONS / PUBLIC ADDRESSES

There were none.

3. DECLARATIONS OF INTEREST

There were none.

4. MATTERS OF URGENCY WHICH BY REASON OF SPECIAL CIRCUMSTANCES THE CHAIR IS OF THE OPINION SHOULD BE CONSIDERED

The Chair was of the opinion that the following item be discussed as a matter of urgency due to the undue delay if consideration of it were deferred.

Partnership Arrangements Review Update

The Democratic & Chief Executives Services Manager circulated a report at the meeting to provide the Committee with an overview of its status.

The Committee were updated on the progress of the Officer Group in regard of Partnership Working. The Committee was also advised that, due to factors such as the change in the economic climate, the abolition of the Comprehensive Area Assessment (CAA), resources, the launch of Big Society and the Localism Bill there had been a change to the idea of partnership working and a change to the types of partnerships this Council will be working with. In turn this has all impacted on the Officer Groups ability to deliver the recommendations of the Audit Committee.

It was noted that the Group had been reviewing current Partnerships this Council were involved in to ensure there were good processes. It was anticipated that the delivery of the recommendation would be in May 2011 and the policy rolled out to staff in June 2011.

There was also discussion around Members Expenses. This was due to the decision to provide all Councillors, who request it, an allowance for travel within the Borough being denied by Full Council. There would instead be a review of the policy.

Members noted that they would welcome better guidance on the allowance scheme. Members also commented that if Councillors had more knowledge of Members Expenses and were given an option to 'opt out' Members might be in a position to reconsider an optional basic allowance for travel within the Borough, particularly if this would be a more cost effective exercise taking into account the amount of officer time used to process allowances.

RESOLVED:

1. That the cost of Member allowances and officer time taken to process, be considered and reviewed with a report of the outcome taken to Management Board; and
2. That the outcome be brought to a future Committee for noting.

5. RISK MANAGEMENT UPDATE - STRATEGIC RISK REGISTER

The Corporate Risk and Business Continuity Manager submitted a report, which enabled the Committee to review the updated Strategic Risk Register for noting or to suggest any amendments. It was confirmed that there were some changes in regard to what was deemed as a 'Strategic' risk and therefore some risks seen previously had been moved to an appropriate service register.

Members questioned the reasons why risks such as the Environmental Contract had been downgraded to a service risk. It was confirmed that a Strategic Risk was deemed as one where there was concern in regard of business success and vitality of the whole organisation. As an example, the Environmental Contract was noted as a risk only affecting one service so it was now located on the appropriate Service Register. Members were advised that they could request that these service registers are brought before this Committee for review. It was also noted that if a risk were to change it could be down graded or up graded where appropriate.

RESOLVED:

1. That a review of Environmental Services Risk Register be brought to the meeting of the Committee in September 2011;
2. That a review of the Leisure Trust Risk Register be brought to the meeting of the Committee in October 2011; and
3. That the Strategic Risk Register be noted.

6. IFRS AND PROPOSED CHANGES TO THE ACCOUNTS AND AUDIT REGULATIONS 2003

The Assistant Head of Finance presented a report with an overview of changes arising from the International Financial Reporting Standards (IFRS) and proposed amendments to the Accounts and Audit Regulations 2003. It was noted that there were a few key areas of change and that there would be an increase of 50% of notes and disclosures.

Changes were noted as:

- That on property leases the land and buildings to be split and separately assessed;
- Property assets held for sale to be actively marketed and ready to sell;
- Employee benefits accrual and that outstanding annual leave, time off in lieu (TOIL), flexi time, maternity and long term sick now to be included and calculated on 31 March annually;
- A change to Government Grants in regard of the status of conditions attached to grants;
- New regulation in regard of Group Accounts;
- The Chief Finance Officer will now sign off the accounts by 30 June annually; and
- That the accounts will near replicate those of the Private Sector in order for a clearer understanding of content and terminology.

RESOLVED:

1. That the Statement of Accounts no longer being brought to Committee prior to 30 June and the commencement of the year end audit be noted; and
2. That the contents of the report be noted.

7. GIFTS AND HOSPITALITY

The Director of Finance & Support presented a report to the group on Officer and Members Gifts and Hospitality. It was confirmed to Members that there was a policy in place in regard of the receipt of Gifts and Hospitality over £25 and that Members and Officers should register any receipt of gift or hospitality with the Monitoring Officer. It was noted that details in regard of what constitutes a gift or hospitality can be found in the respective codes of conduct and all details can be made public on receipt of a Freedom of Information request.

Members discussed and noted the following:

- That information was not currently on the Internet and whether this could happen in line with processes at other authorities; and
- The value of £25 as whether this was legislative or decided by this Council.

RESOLVED: That the report be noted.

8. EXTERNAL AUDIT UPDATE

The Head of External Audit presented an External Audit Update Report. It was confirmed that the 2009/10 had now been completed and work was well underway on the 2010/11, of which progress was noted in the report. It was also noted that the key financial system was now complete and there were no significant matters arising.

Members noted to external audit that they were pleased that due to time worked together and them now having a greater knowledge of this Councils capabilities that they had been able to pass more responsibility to internal officers.

RESOLVED: That the progress of external audit plans as contained in the Audit Commission's Progress Report of March 2011 (Appendix 1) be noted.

9. INTERNAL AUDIT UPDATE REPORT AND DRAFT INTERNAL 2011/12 OPERATION AUDIT PLAN

The Committee received a report from the Senior Manager at PricewaterhouseCoopers (PwC) on the Internal Audit Update Report and Draft Internal 2011/12 Operation Audit Plan. During discussion it was noted that the Annual Report would be received at the next meeting of the Committee.

Since the last meeting it was confirmed that draft reports had been sent out in regard to various services as in 3.2.2 where no significant issues had emerged. There had also been work on the four high-risk contracts as tabled in 3.1.2.

There was discussion around the core financial systems and that there was a draft review around the creditor payments system (IBS) and its controls show that it is still not working to its expected level. Issues were raised in regard of IT issues, which had been addressed, and the usage by staff, which may not be accurate. Members commented that staff had

previously used an outdated system and noted that it was likely that a future Audit Committee would like to receive a report on this to address further issues.

In regard of the Draft Internal Audit Risk Assessment and Plan it was noted that this was still in draft form but the full and final plan would be received at the next meeting post the receipt of Management Board responses. It was noted that the plan was in order to create a more robust audit process.

It was confirmed to the Committee that the plan would identify common issues and potential key risks. It was noted that there was a need to understand this process across the authority, to understand what the process had learned and how strong are this authorities controls were.

Discussion took place around the Internal Audit Plan and Indicative Timetable.

Members commented on the risk assessment criteria for a 'Major Impact'. It was noted as level of risk before controls were in place, the potential impact for a major impact on performance and the audit requirement rating.

- RESOLVED: 1.** That an update on the actions / action plan to deliver the recommendations of the IBS Creditors report be brought to the June audit committee; and
- 2.** That the Draft Internal Audit Risk Assessment and Plan 2011/12 be noted.

10. EXCLUSION OF PUBLIC AND PRESS

The Chair moved that the Public and Press be excluded from the remainder of the meeting on the grounds that there was likely to be disclosure to them of such categories of exempt information as defined by Section 100(1) of the Local Government Act 1972 as listed against such items of business by reference to the appropriate paragraph of Schedule 12A to such Act.

The Motion was Carried.

11. SPECIAL REVIEW - PROTECTION OF THE MUSEUMS COLLECTION: ACTIONS UPDATE

The Committee received a report from the Cultural Services Manger on the Special Review in regard of the Protection of the Museums Collection: Actions Update. It was noted that the special review occurred due to a change of insurers requiring an independent valuation of this authorities collections.

Members discussed Page 92 and what the meaning of 'further accidental damage'. It was noted in response that some items were damaged due to vandalism and other items were received or purchased imperfect. Members then discussed the items yet to be located for valuation. In response it was noted that this was an Officer priority. The Director of Finance confirmed that all items were located in one of the Councils buildings but the Officers were unable to locate at the time of the valuation and confirmed that all items were catalogued for insurance purposes.

It was also noted that this Committee, through Monthly Monitoring Delivery, would receive updates on this Special Review.

RESOLVED:

That the actions taken to date, and proposed actions to be taken be noted.

The meeting concluded at 7:30 pm

Minute Item 4

Partnership Arrangements Review Update to Audit Committee 21st March 2011

Background and progress to date

A project group was established to deliver the recommendations from the Internal Audit entitled Partnership Arrangements Review. The main purpose of the recommendations was to ensure good governance and performance management arrangements are in place for partnerships in which the council is involved. Work commenced in developing a partnership protocol and conducting an initial scope of partnership arrangements within the Council.

The recommendations were due to be delivered by the end March 2011. However, since this work was begun, the environment in which Local Authorities operate with respect to partnerships and performance has changed, which caused the group to assess the impact that these changes would have on local government and in particular to consider whether its original approach to this piece of work would still be appropriate.

Changing environment with regards partnerships and performance

Local Government has experienced the following changes since May 2010.

- Abolition of CAA and Use of Resources
- Abolition of LAA and the National Indicator Set
- Move away from central government inspection regime to local authority self-regulation
- Launch of Localism and Big Society

Locally, this has resulted in:

- Changes to the Partnership Support Board
- Creation of the Northamptonshire Partnership
- Anticipated review and re-focus of the LSP
- Shift in performance culture to self-regulation in the absence of regulation from central government

Future approach

Now that the council has greater clarity about the future role of partnership working and performance monitoring in Local Government, the project group proposes to amend its approach to delivering the recommendations of the original internal audit review by:

- Integrating the requirement for service areas to review their involvement in partnerships with existing processes, such as service planning and change management, rather than creating a separate and potentially bureaucratic protocol
- Providing officers with guidance in place of a protocol for what they must consider when entering into a partnership, but being less prescriptive about the process they have to follow to do this. This is in recognition that a single protocol could not cover the plethora of different partnerships that the council is currently involved in or may wish to join in the future, particularly as a result of initiatives such as Localism and Big Society
- Empower service areas to self regulate their involvement in partnership, but ensuring from the corporate centre that they conduct regular monitoring and review
- Acknowledging that the Council will likely enter into far more partnerships with a greater range of requirements upon the council in the future and that the partnership protocol will not be able to provide guidance for all

New processes to be live by end of May and rolled out to the Council by end of June 2011.



AUDIT COMMITTEE REPORT

Report Title	Terms of Reference and Annual Audit Plan 2011/12
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	27 June 2011
Policy Document:	No
Directorate:	Finance and Support
Accountable Cabinet Member:	Cllr Alan Bottwood

1. Purpose

- 1.1 For the Audit Committee to note the revised Terms of Reference that were agreed at Full Council in May 2010; and
- 1.2 For Audit Committee to be aware of the agreed 2011/12 Internal Audit Risk Assessment and Plan.

2. Recommendations

- 2.1 That the Committee notes the Terms of Reference and responsibilities of the Committee; and
- 2.2 That the Committee are aware of the approved 2011/12 Internal Audit Risk Assessment and Plan.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The revised Terms of Reference of the Audit Committee was approved by Full Council on 20 May 2010. Following this, Audit Committee received a report on the Terms of Reference in 28 June 2010. The Terms of Reference are being brought back here to make the new Audit Committee members aware of the contents of the Terms of Reference for the Committee; and
- 3.1.2 The 2011/12 Internal Audit Risk Assessment and Plan outlines the planned activity for internal audit for 2011/12. The Plan was originally considered an approved by Audit Committee at its last meeting of 21 March 2011.

3.2 Issues

- 3.2.1 The Audit Committee Terms of Reference outline the responsibilities of the Audit Committee and are contained within the Constitution. Audit Committee

members need to be aware of the contents of the Terms of Reference for the committee and ensure that it operates within these Terms of Reference.

3.2.2 Features of Audit Committees

Good audit committees will be characterised by:

- Strong chairmanship – displaying a depth of skills and interest;
- Unbiased attitudes - treating auditors, the executive and management equally;
- The ability to challenge the Executive (leader/chief executive) when required; and
- A membership that is balanced, objective, independent of mind, and knowledgeable.

3.2.3 Structure and Administration

Although no single model of committee is prescribed, all should:

- Be independent of the Executive and Scrutiny functions;
- Have clear reporting lines and rights of access to other committees, for example scrutiny and service committees and other strategic groups;
- Meet regularly – at least four times a year with a quorum, and have a clear policy on those items to be considered in private and those to be considered in public;
- Include, as regular attendees, the Responsible Finance Officer (for Northampton Borough Council the Director of Finance and Support), Head of Internal Audit or equivalent (therefore PricewaterhouseCoopers Audit Manager) and Appointed External Auditor (Audit Commission);
- Other attendees may include the Monitoring Officer (for standards issues) and the Heads of Service and Directors as necessary. The Committee should have the right to call any other officers or agencies of the council as required;
- The Chair should have direct access to both the Appointed External Auditor and the Head of Internal Audit; and
- Be properly trained to fulfil their role.

3.2.4 The 2011/12 Internal Audit Risk Assessment and Plan outlines the planned activity for internal audit for 2011/12. Audit Committee members need to be aware of the Plan because it outlines the planned work of Internal Audit for 2011/12. The Plan is subject to change during the year because of emerging issues but these changes will be reported to Audit Committee as they occur.

3.3 Choices (Options)

3.3.1 To be aware of and understand the responsibilities of the Audit Committee; and

3.3.2 To be aware of the approved 2011/12 Internal Audit Risk Assessment and Plan.

4. Implications (including financial implications)

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 Senior officers, the Constitution Working Party, and Full Council have had opportunity to comment and feedback on the terms of reference; and

4.5.2 Director of Finance and Support, Head of Finance, and other Heads of Service and Directors and the previous members of the Audit Committee in respect of the 2011/12 Internal Audit Risk Assessment and Plan.

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

Appendix 1 – Audit Committee Terms of Reference

Appendix 2 – 2011/12 Internal Audit Risk Assessment and Plan

Bill Lewis
Head of Finance, ext 7167

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Article 9 – The Audit Committee

9. The Council will establish an Audit Committee:

9.1 Membership: The Audit Committee will be composed of:

Seven Councillors, excluding members of the Cabinet.

The Committee shall have delegated powers to appoint co-opted members, without voting rights but with expertise in relevant areas.

9.2 Role and terms of reference

- 9.2.1 generally consider all relevant processes for risk, control and governance;
- 9.2.2 approve (but not direct) internal audit's strategy, plan and performance;
- 9.2.3 review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- 9.2.4 consider the reports of external audit and inspection agencies;
- 9.2.5 consider the effectiveness of the Council's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements and seek assurances that action is being taken on risk related issues identified by auditors and inspectors;
- 9.2.6 be satisfied that the Council's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- 9.2.7 ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- 9.2.8 review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;
- 9.2.9 monitor, the implementation of Key recommendations and actions arising from the Council's Improvement Plan;
- 9.2.10 consider key performance management reports and monitor the effectiveness of performance against the Best Value Performance Plan and key outcomes in the Council's Improvement Plan;
- 9.2.11 promote relevant value for money studies following particular themes or service areas as appropriate; and

9.2.12 approve the Annual Statement of Accounts for submission to the External Auditor and for public consultation and to subsequently approve their adoption.

9.3 Rules of Procedure

The Council Procedure Rules contained in part 4 of this Constitution shall apply insofar as they do not conflict with the rules herein.

Northampton Borough Council

Internal Audit Risk Assessment and Plan

2011/2012

Internal audit risk
assessment and plan

Distribution List

Senior Management Team
Heads of Service
Audit Committee

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1. Introduction and Approach

Introduction

This Internal Audit Risk Assessment and Plan outlines our proposed audit work for the year, based on our analysis of the key risks facing Northampton Borough Council.

Approach

Our approach to developing the audit plan is set out below.

Defining the Audit Universe

Dividing Northampton Borough Council into auditable units

We have identified the auditable units within Northampton Borough Council based on the organisational structure

Any processes which run across a number of different departments within Northampton Borough Council and which can be audited once have been pulled out as a separate auditable unit under Cross-cutting reviews in the audit universe, which is shown in full in Section 2.

Corporate level priorities and risks as defined in the corporate plan and risk register have been mapped to the auditable units. They are set out in Appendix 1.

Risk Assessment

Assessing the risk profile inherent within each auditable unit and adjusting for the strength of the control environment

Each auditable unit within the audit universe has been assessed for the potential impact and likelihood of inherent risks.

We have also rated the strength of the control environment within each auditable unit, taking into consideration:

- The strength of the first line of defence:
 - The extent of review by other assurance providers
 - The adequacy of risk assessment and management controls.
- The strength of the second line of defence (e.g. operational risk, health and safety, compliance):
 - Scope of qualitative and quantitative assessment
 - Issues identified.

The audit requirement rating has then been calculated from the inherent risk rating and control environment indicator; this ensures that audit effort is directed to areas of high risk and areas with high reliance on controls operating effectively.

The full results of our risk assessment are set out in Section 2; Section 3 sets out our detailed risk assessment criteria.

Audit planning

Identifying the specific reviews to be undertaken by internal audit

To develop the audit plan, the frequency of audit work has been determined for each auditable unit based on the audit requirement rating.

For auditable units which are not reviewed every year, the appropriate proportion of units are included in the plan each year (i.e. half of all auditable units to be covered every two years, a third of all auditable units to be

covered every three years etc). The specific auditable units to be covered each year are determined based on the length of time since audit work was last undertaken in each area and in consultation with management.

In some cases the majority of the risk within an auditable unit will be contained within a specific sub-process. In this case the work required has been adjusted to take this into account: the higher risk element has been captured as an **exception**, and will be included at a higher frequency than the remainder of the auditable unit.

Details of the correlation between the audit requirement rating and the of audit work are available in Section 2. Section 4 sets out our internal audit plan for 2011/12 with an indicative timeline.

Value Enhancement reviews

Identifying process improvement reviews to be undertaken by internal audit

In addition to the audit work defined through the risk assessment process described above, we undertake a programme of Value Enhancement reviews designed to assist management in improving existing processes. The Value Enhancement programme for 2011/12 has been identified through discussions with management and is included in the Internal Audit Plan set out in Section 4.

Key contacts

Meetings have been held with the following key personnel during the planning process:

David Kennedy

Chief Executive

Sue Bridge

Head of Planning

Steve Elsey

Head of Public Protection

Cheryl Doran (on behalf of Marion Goodman)

Customer Service Manager

Kathy Brookes (on behalf of Dale Robertson)

Performance Team Leader

David Atkinson

Head of West Northamptonshire JPU

Christine Ansell

Head of Landlord Services

Garry Pyne

Head of Procurement

Cllr Tony Woods

Chair of the Audit Committee

Robin Bates

Head of Revenues and Benefits

David Bailey

Director of Planning and Regeneration

Cara Boden

Assistant Chief Executive

Julie Seddon

Director of Environment and Culture

Bill Lewis

Head of Finance

We have also asked for input from the following key personnel:

Ian Redfern

Head of Culture and Leisure

Catherine Wilson

Head of Revenues and Benefits

Fran Rogers

Head of Performance and Improvement

Lesley Wearing

Director of Housing

Francis Fernandes

Borough Solicitor

Chris Cavanagh

Head of Regeneration and Development

Simone Wade

Head of Neighbourhood Environmental Services

Thomas Hall

Head of Policy and Community Engagement

DRAFT

2. Risk Assessment

Audit universe of Northampton Borough Council with risk assessment results

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
A Cross-cutting							
A.1	Risk Management	CP 8 Providing quality services	5	3	4	●	Every year
A.2	Procurement		5	2	4	●	Every year
A.3	Business Continuity		6	4	4	●	Every year
A.4	Governance		6	4	4	●	Every year
A.5	Treasury Management		5	5	3	●	Every two years
A.6	Budgetary Control		6	5	4	●	Every year
A.7	Insurance claims		3	2	2	●	Every three years
A.8	General Ledger		6	4	4	●	Every year
A.9	Debtors		6	4	4	●	Every year
A.10	Creditors		6	3	4	●	Every year
A.11	Payroll		6	2	5	●	Every year
A.12	Fixed Assets		6	4	4	●	Every year
A.13	Cash and Banking		6	5	4	●	Every year
A.14	Expenses		5	2	4	●	Every year
A.15	Housing Benefits		6	3	4	●	Every year
A.16	Debt Recovery		6	2	5	●	Every year
A.17	Collection Fund		5	4	3	●	Every two years
B Departmental Level							
B.1	Finance	CP 8 Providing quality services	6	4	4	●	Every year
B.2	Human Resources	CP 8 Providing quality services	5	3	4	●	Every year
B.3	Revenues and Benefits	CP 8 Providing quality services CP 1 Supporting you when you need it	6	3	4	●	Every year

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.4	Customer Services and ICT	CP 8 Providing quality services CP9 Satisfying our customers	6	4	4	●	Every year
B.5	Landlord Services	CP 2 Ensuring homes are available for local people	5	2	4	●	Every year
B.6	Strategic Housing	CP 2 Ensuring homes are available for local people	5	2	4	●	Every year
B.7	Planning	CP 6 Driving the development of a confident, ambitious and successful Northampton	5	3	4	●	Every year
B.8	Regeneration and Development	CP 6 Driving the development of a confident, ambitious and successful Northampton	4	3	3	●	Every two years
B.9	Asset Management	CP 8 Providing quality services	4	3	3	●	Every two years
B.10	West Northamptonshire JPU	CP 8 Providing quality services CP9 Satisfying our customers	4	3	3	●	Every two years
B.11	Public Protection	CP 4 Helping create a clean, green and safe Northampton	4	3	3	●	Every two years
B.12	Environmental Services	CP 4 Helping create a clean, green and safe Northampton	5	3	4	●	Every year
B.13	Culture and Leisure	CP 3 Encouraging healthy, active, green living CP 5 Delivering inviting and enjoyable open spaces	5	3	4	●	Every year
B.14	Policy and Community Engagement	CP 1 Supporting you when you need it CP 7 Being a responsive Council	3	2	2	●	Every three years
B.15	Corporate Performance and Change	CP 8 Providing quality services	4	3	3	●	Every two years

Ref	Auditable Unit	Corporate objectives	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
B.16	Communications Team	CP 8 Providing quality services CP9 Satisfying our customers	3	2	2	●	Every three years
B.17	Democratic and Chief Executive Services	CP 8 Providing quality services	4	2	3	●	Every two years
B.18	Community Safety Partnership	CP 4 Helping create a clean, green and safe Northampton	4	3	3	●	Every two years
B.19	Borough Solicitor Function	CP 8 Providing quality services	5	3	4	●	Every year

Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6	●	Every year	A review of processing and monitoring control design and operating effectiveness
5	●	Every year	
4	●	Every year	
3	●	Every two years	
2	●	Every three years	
1	●	No further work	n/a

See Section 1 for a description of the risk assessment methodology used to determine the Audit Requirement Rating. Section 3 sets out the detailed risk assessment criteria.

3. Risk Assessment Criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	Assessment rationale
6	Critical impact on operational performance or Critical monetary or financial statement impact or Critical breach in laws and regulations that could result in material fines or consequences; <i>or</i> Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; <i>or</i> Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; <i>or</i> Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Likelihood rating	Assessment rationale
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Inherent risk rating

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Determination of Control Environment Indicator

Our assessment of the control environment is known as the **Control Environment Indicator**.

The control environment is assessed on a scale determined by the inherent risk rating for each auditable unit. The control environment indicator cannot be greater than the inherent risk rating; therefore a rating of 1 indicates that there are minimal controls in place, and a rating equal to the inherent risk rating indicates that the control environment is sufficiently strong to mitigate all inherent risks within the auditable unit.

Determination of Audit Requirement Rating

The **Audit Requirement Rating** is calculated based upon the inherent risk and control environment indicator so that audit effort is directed to areas of high risk and high reliance on controls operating effectively.

Audit Requirement Rating:

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

4. Internal Audit Plan and Indicative Timeline

Internal Audit Plan and Indicative Timeline

The following table sets out the internal audit work planned for 2010/11

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A	Cross-cutting						
A.1	Risk Management	5		x			Risk Management and Business Continuity review to cover: Risk management framework Fraud risk management Business continuity
A.2	Procurement	10		x			Procurement review to cover: <ul style="list-style-type: none"> • Tendering and quotations controls • Training and guidance for officers • Monitoring of adherence to procurement rules • Changes in procurement arrangements
A.3	Business Continuity	N/A		x			See Risk Management – Audit combined with RM
A.4	Governance	N/A					Governance survey – See Value Enhancement section below
A.5	Treasury Management	5	x				Treasury management review to cover: <ul style="list-style-type: none"> • Treasury Management Strategy • Monitoring controls over compliance with strategy
A.6	Budgetary Control	8				x	Budgetary Controls review to cover: <ul style="list-style-type: none"> • Budget setting process • Budget monitoring and reporting
A.7	General Ledger	8			x		General Ledger review to cover: <ul style="list-style-type: none"> • Input controls. • Accuracy of outputs. • Security over access and data. • System enhancements. • Changes in key staff or operating procedures.

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.8	Debtors	6		X			Debtors review to cover: <ul style="list-style-type: none"> All sources of income are identified. Invoices are raised in a timely, complete and accurate fashion.
A.9	Creditors (Agresso)	6			X		Creditors review to cover: <ul style="list-style-type: none"> Accuracy and review of output from the creditors system. Orders are raised in respect of all goods required. Payments are accurately made for goods received and appropriate authorisation has taken place. Security over access and data
A.10	Creditors (IBS)	8			X		Creditors review to cover: <ul style="list-style-type: none"> Accuracy and review of output from the creditors system. Orders are raised in respect of all goods required. Payments are accurately made for goods received and appropriate authorisation has taken place. Security over access and data
A.11	Payroll	10			X		Payroll review to cover: <ul style="list-style-type: none"> Starters, leavers and amendments Calculation of deductions Temporary variations to pay Security of system and access controls
A.12	Fixed Assets	6				X	Fixed Assets review to cover: <ul style="list-style-type: none"> Acquisitions identified Treatment of surplus assets Disposals/transfers Capital assets are completely and accurately recorded Capital asset verification Accounting for fixed assets and associated capital charges / revaluations Fixed assets are appropriately disclosed System is secure against unauthorised access and data loss

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.13	Cash and Banking	10			X		<p>Cash and banking review to cover:</p> <ul style="list-style-type: none"> All bank accounts are subject to regular and independent review & reconciliations. Use of suspense accounts is limited and items promptly cleared. Re-performance of reconciliations to ensure accurately completed. All income collection points are known. Adequate controls over post opening and processes in place for the secure receipt and recording of cash. Banking takes place promptly. Cash is accurately recorded against debtor and income accounts. Use of suspense accounts. Adequate segregation of duties. Unders and overs are accurately recorded and investigated.
A.14	Expenses	7			X		<p>Expenses review to cover:</p> <ul style="list-style-type: none"> Policies and procedures are up to date and communicated to employees Claims are made in line with policies and procedures Discrepancies and investigated and resolved prior to payment. Only permissible expenses are claimed and paid Authorised signatory list is in place and only authorised claims are processed
A.15	Housing Benefits	8				X	<p>Housing Benefits review to cover:</p> <ul style="list-style-type: none"> Benefit processing Payment of benefits
A.16	Housing rents	10				X	<p>Housing Rents review to cover:</p> <ul style="list-style-type: none"> Rent setting and annual increases Calculation of annual rent debit Changes to housing stocks Debt collection, allocation and rebates
A.17	Debt Recovery	7				X	<p>Debt Recovery review to cover:</p> <ul style="list-style-type: none"> Adequacy of debt collection, recovery and write-off procedures.

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
A.18	Partnership Arrangements	8		x			Partnership arrangements across the Authority, including governance and risk management
Total		122					
B	Departmental						
B.1	Human Resources	8				x	<i>Induction training</i> – Processes and controls around induction training
		8	x				<i>Recruitment</i> – Processes and controls around recruitment (including decentralised processes within departments)
B.2	Customer Services and ICT	15				x	<i>IT reviews</i> – Including IT general controls and IT security
B.3	Landlord Services	N/A					<i>HRA assumptions within Business Plan</i> - See Value Enhancement below
		10			x		<i>Decent Homes programme</i> – contract management/monitoring
B.4	Strategic Housing	6	x				<i>Void</i> s - Void expenditure and void turnaround
B.5	Planning	10				x	<i>West Northamptonshire Development Corporation (WNDC)</i> – Review of governance arrangements for stage 2 transition of WNDC
		8					<i>Locally set planning fees</i> – Assumptions within costing model
B.6	Regeneration and Development	10	x				Governance arrangements around regeneration projects, including Grovsenor and St Johns projects
B.7	Asset Management	8		x			Asset management review to cover: Time recording system Disposals Delivery of corporate programme
B.8	Environmental Services	N/A					<i>Environmental Services Contract</i> - See Value Enhancement below
B.9	Culture and Leisure	10				x	<i>Leisure Trust Contract</i> - Contract management/monitoring arrangements
B.10	Corporate Performance and Change	10				x	<i>Performance Management Framework</i> - Oversight of data quality and performance management and arrangements for performance related pay
		5		x			<i>Project governance</i> – Specific review of Electronic Data Management System (EDMS) project
B.11	Democratic and Chief Executive Services	5	x				<i>Community Asset Transfer Scheme</i> –Risk management arrangements

Draft internal audit risk assessment and plan

Ref	Auditable Unit	Indicative number of audit days	Y1				Comments
			Q1	Q2	Q3	Q4	
B.12	Borough Solicitor Function	N/A					Anti-fraud awareness training - See Value Enhancement below
Total		113					
VE	Value Enhancement						
VE.1	Anti-fraud and corruption training (Members and Officers)	2		×			Anti-fraud and corruption training to be provided to Members and Officers 10 days in total to be used, including the 8 days carried forward from 2010/11 as per bottom of this table.
VE.2	Governance survey	10				×	Survey last performed in 2009/10. Follow up survey to identify progress since the previous survey.
VE.3	Audit Committee Effectiveness Training	2	×				Audit committee effectiveness training for Members
VE.4	Environmental Services Contract Review	10	×				Specialist contract/contract monitoring arrangements review for Environmental Services
VE.5	HRA –Business Plan assumptions review	5		×			Specialist review of assumptions within 30 year Business Plan
Total		29					
PM	Project Management/Other						
PM.1	Follow Up	3		×			• Museum Security
PM.2	Teamcentral	10	×	×	×	×	Teamcentral maintenance
PM.3	Audit Management	18	×	×	×	×	Management of the internal audit contract
Total		31					
TOTAL PROPOSED DAYS		295					
Additional days carried forward from 2010/11 plan							
N/A	NFI	10	×				5 days used from 15 available in 2010/11. The rest is carried forward for work to be completed in Q1 2011/12
N/A	Anti-fraud and Corruption training (Members and Officers)	8		×			Anti-fraud training for Members and Officers to be carried out in Q1
N/A	Voids	4	×				Audit postponed in 2010/11. Added 4 days available to 6 days included in 2011/12 plan to provide 10 days for full controls audit
Total		22					

The table above shows indicative start dates for the relevant audits.

We apply an integrated internal audit approach such that audits of businesses and functions include both manual and automated controls.

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Appendix 1: Corporate Objectives and Risks

These corporate level priorities and risks have been determined by Northampton Borough Council as documented in the Corporate Plan and Corporate Risk Register.

Priority	Cross reference to Internal Audit Plan (see Section 4)
CP 1 Supporting you when you need it	A.15 Housing Benefit
CP 2 Ensuring homes are available for local people	B.3 Landlord Services reviews B.4 Strategic Housing reviews
CP 3 Encouraging healthy, active, green living	B.9 Leisure Trust contract
CP 4 Helping create a clean, green and safe Northampton	VE.4 Environmental Services Contract review A.18 Partnership Arrangements
CP 5 Delivering inviting and enjoyable open spaces	VE.4 Environmental Services Contract review
CP 6 Driving the development of a confident, ambitious and successful Northampton	B.6 Regeneration B.12 Community Asset Transfer Scheme
CP 7 Being a responsive Council	VE.4 Environmental Services Contract review
CP 8 Providing quality services	All reviews in section A – Cross Cutting B.11 Corporate Performance and Change reviews
CP9 Satisfying our customers	A.15 Housing Benefits A.16 Housing Rents

Risk	Cross reference to Internal Audit Plan (see Section 4)
Failure to deliver a balanced and deliverable budget.	A.6 Budgetary Controls
The organisation fails to deliver its responsibilities.	B.10 Corporate Performance and Change reviews
The plans for improving Northampton are not delivered.	B.6 Regeneration B.11 Community Asset Transfer Scheme

Failure of governance procedures and processes to facilitate the direct desired outcomes

VE.2 Governance

A.1 Risk Management

The Council fails to make the best use of resources (assets, people, technology).

B.1 Human Resources reviews

B.2 Customer Services and ICT reviews

B.7 Asset Management

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NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	IBS Creditors Internal Audit Report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	27 June 2011
Policy Document:	No
Directorate:	Housing
Accountable Cabinet Member:	Councillor C. Malpas

1. PURPOSE

- 1.1 To update the Committee on progress on implementing the 2010 internal audit report: Creditors (IBS) Review.

2. RECOMMENDATIONS

- 2.1 The Committee is recommended to note the progress on implementing the recommendations.

3. ISSUES AND CHOICES

3.1 Report Background

- 3.1.1 The Council completed the implementation of the IBS repairs computer system in July. The audit was carried out shortly after implementation and raised a number of issues that needed to be addressed. These are listed in the Appendix.
- 3.1.2 Progress is underway on implementing Open Mobile which is due to go live in September 2011. This will involve the use of hand held, mobile technology which will replace current paper based systems.

3.2 Issues

- 3.2.1 Following implementation there were system and process issues in housing and the interface between housing and finance that led to a backlog of unpaid invoices. This has been successfully dealt with and there is no backlog of invoices. Proper systems are in place and processes are now being followed. Other issues that needed to be addressed are listed on the appendix.

4 BACKGROUND PAPERS

Internal Audit Report
Creditors IBS review
Report No 10-11-NBC 08

Report Author: Christine Ansell
Head of Landlord Services
Ext 8584

APPENDIX

Ref	Specific Risk	Control weakness found and risk rating	Recommendations	Management response	Latest position
1	Procedure Notes may not reflect current working practices leading to an increased risk of error.	The Council does not have formal procedure notes in place for the ordering system. These are in their draft stage. Medium risk.	Detailed procedure notes should be drawn up for IBS. These should be placed on the shared drive or intranet to ensure that all officers can access them with ease. Procedure notes should be reviewed on an annual basis to ensure they are kept up-to-date and relevant.	Agreed. Procedure notes have been produced	Procedure notes have been draw up and this was completed in January 2011
2	User accounts of leavers could be used by others if not disabled or Terminated. Users may have inappropriate access to the system.	Human Resources do not supply a list of new starters, staff who have left or staff who have been promoted, to the IBS System Administrators. Therefore the administrators rely upon the line managers and the teams own knowledge to inform them of these changes in circumstances. Medium risk	A regular list of changes to personnel should be communicated to the IBS System Administrators to enable them to process these changes accordingly.	Agreed HR now send lists through to the Systems Team following all personnel leaving the authority and the system is updated this way. This will be done monthly.	Completed
3	Funds are being committed without appropriate authorisation. An adequate GRNI liability may not be recognised in the accounts Management may not be aware of performance leading to adverse	There are some key exception reports which are either not being performed by the Council or not being reviewed by the Team Leaders using IBS. These include: <input type="checkbox"/> Invoices not supported by orders. <input type="checkbox"/> Goods received not invoiced. <input type="checkbox"/> Prompt payment requirements <input type="checkbox"/> Amendments to master file data Medium risk	The functionality of IBS systems should be investigated to establish exception reports can be run. In particular: 1. Invoices not supported by orders should be reviewed on at least a monthly basis. 2. Goods received not invoiced should be reviewed by team leaders centrally on at least a monthly basis. 3. Performance reports regarding the payment of	Agreed. 1. Reports now checked daily by the Business Support Team Leader. 2. Goods received not invoiced – a report already exists. Team Leaders have been and will continue to be reminded of the report and the processes they should follow. 3. Report produced and	Completed

Ref	Specific Risk	Control weakness found and risk rating	Recommendations	Management response	Latest position
	performance against any Council BVPI targets Unapproved changes to employee standing data may be made.		creditors should be circulated to Maintenance Supervisors to identify any adverse performance against key performance indicators on a monthly basis. 4. The Business Support Team Leader should review any changes made to standing data on at least a monthly basis	circulated. 4. Team Leader Business Support will review changes made by Finance to suppliers on a monthly basis – no changes can be made directly into IBS	
4	Unauthorised access to the system leading to misappropriation of Authority's funds.	2 members of staffs who have left the Council still had access on the IBS system. Medium risk	The Council should remove all staff who have left the Council from the access listing, User access should be reviewed on a monthly basis.	Agreed Will be done monthly	Completed
5	Tendering process for quotations cannot be evidenced. The Council may be overcharged if invoice and order amount differences are not investigated. Increased risk of unauthorised transactions Contractors may be unfairly or inconsistently selected.	For 2 out of 25 jobs tested, quotations had not been sought or had not been sought in line with the thresholds identified by the Council. Procedure notes for obtaining quotations for IBS are in draft. Medium risk	Detailed procedure notes for seeking quotations should be finalised. The Department should ensure that these are in line with the Council's general procurement guidance for quotations. These should be placed on the shared drive or intranet to ensure that all officers can access them with ease. Officers have been reminded of the requirement to obtain quotations in line with procedures	Agreed Instructions given. Staff have been reminded again in writing.	Completed

Ref	Specific Risk	Control weakness found and risk rating	Recommendations	Management response	Latest position
6	Funds are being committed without appropriate authorisation.	For 1 of 25 purchase orders tested, the purchase order had been raised after the goods had been recorded as received. Low risk	The Council should ensure that purchases are not being made without an authorised requisition and order.	Agreed Instructions given to staff who have been reminded again in writing.	Completed
7	The Uniclass system has historically had many problems and a 'No Assurance' opinion was given over the system in the prior year.	The Uniclass system is still being used for transactions within the Transport department. Medium risk	The Council should review the use of Uniclass for transport transactions and research into the feasibility of using either Agresso or IBS instead.	It has been decided to use the Agresso system and discussions are taking place with the finance department to take this forward	In process
8	Invoices and purchase orders are not matched leading to a delay in payment	Suppliers sometimes send two invoices to cover one purchase order. However, the functionality within IBS to create more than one GRN is currently not being used. Medium risk.	The Council should utilise the functionality to create a second goods received note for one purchase order. This will allow goods which have been split across two invoices to be matched to original purchase orders	Process in place and staff briefed	Completed
9	Orders may be made inappropriately	The system has functionality to place limitations on the maximum amount individuals can raise cumulatively. However, this is not being utilised effectively and has been set at £99,999,999. The risk is mitigated by a built in workflow within IBS which ensures individual orders are authorised in	The Authority should review the restrictions placed on the total amount individuals can raise and consider amending this to a lower level. This will strengthen controls over the maximum orders individuals can raise.	Agreed to consider This is a low risk and there are alternative mechanisms in place that provide the necessary controls. Each user has a financial per transaction limit which also provides control.	Under consideration - Target date 30 July 2011

Ref	Specific Risk	Control weakness found and risk rating	Recommendations	Management response	Latest position
		accordance with authorisation limits. Low risk		We need to assess what overall limit per person would be a reasonable amount as we do not want a limit to be reached resulting in a delay to the ordering of repairs.	
10	The Authority is not complying with prompt payment deadlines	The Department is currently not achieving its payment deadlines for invoices. At the time of the audit, on the 21st October 2010, 231 out of 373 invoices, totaling £83,711.13, were listed as being overdue on the Authority's' traffic light report. Medium risk	The Authority should investigate the reasons for the high number of overdue invoices and carry out an exercise to clear the backlog and ensure that processes are in place to prevent this occurring in the future.	Agreed	Completed – there is no backlog of unpaid invoices
11	False suppliers may be created	There is no review or authorisation of new suppliers on the system. Any member of staff can request a new supplier to be set up by Finance. High risk	The Authority should ensure that any requests for new suppliers in the IBS system are authorised by Team Leaders prior to requesting set up from Finance. A listing of all Team Leaders who have approval to authorise should be distributed to the Housing team and to Finance	Agreed New procedure agreed and in place No new suppliers will be added by finance without a signed authorisation form which will contain at least two signatures	Completed
12	Budget information may not	Commitment accounting is not used by the Authority within Housing. This is because the IBS method of	The Finance function should implement commitment accounting	This has been outside our control as it was partly dependent upon	Under consideration

Ref	Specific Risk	Control weakness found and risk rating	Recommendations	Management response	Latest position
	acknowledge future commitments. Creditor accruals may be inaccurate.	performing commitment accounting is not deemed to be compatible with Agresso. It is understood that the Finance function plans to implement this within a future implementation phase. Medium risk	within the next system upgrade. This would require purchase orders to be posted to cost centres on Agresso when they are raised	an upgrade of the finance Agresso system. Purchase of the IBS Commitment Accounting Module is under consideration by the Director.	
13	Increased risk of details on IBS being inaccurate.	2 out of 25 job tickets tested had not been authorised. These both related to commercial sector jobs. Low risk	Team leaders should ensure that all job tickets are signed as authorised.	Agreed Instructions issued to staff	Completed
14	Works performed by contractors may not be performed to a satisfactory standard. Suppliers are paid for incomplete jobs. Amounts charged are inaccurate. Goods received may not be accurate	For 2 of 25 purchase orders tested there was no evidence of checks being performed to confirm that the work had been completed and that amounts charged were accurate. Both of these related to works performed by sub contractors for which a post site inspection should have been performed. There is functionality within IBS to prompt post-site inspections to be performed which is currently being developed. For 1 out of 25 purchase orders tested no delivery note could be found. □ Medium risk	The Council should continue to review the functionality of IBS to prompt post site inspections. This should be rolled out across the department, with relevant procedure notes stored on the shared network or intranet. The Council should ensure delivery notes are received, signed for and retained for all orders.	Agreed The functionality for this exists. The printed inspection ticket is the missing element which is being installed. Agreed. A procedure exists for Supervisors to review on a regular basis. Supervisors will be reminded and this will be incorporated into the procedure notes. See Ref 1	Completed
15	Value for money may not be achieved. Contractors may be	The following value for money issues have been noted: • 4 significant contracts between	The Authority should consider renewing their contracts with suppliers to	This will be addressed by the Stores SBR and the DSO SBR. SBR to	SBR for the DSO is about

Ref	Specific Risk	Control weakness found and risk rating	Recommendations	Management response	Latest position
	unfairly or inconsistently selected.	<p>the Authority and their suppliers have expired.</p> <ul style="list-style-type: none"> • There is no preferred supplier listing in place. • The Authority does not use any purchasing consortium. <p>High risk.</p>	<p>ensure value for money is achieved.</p> <p>A preferred supplier list should be created. The Authority should review their existing list of suppliers and any management information regarding quality of service provided to identify any preferential suppliers and attempt to negotiate bulk pay discounts. This will ensure value for money is achieved.</p> <p>The Authority should investigate the use of purchasing consortiums and whether any value for money can be gained from use of such organizations.</p>	<p>commence April 2011</p> <p>Those are long term projects and interim arrangements will be put in place with interim short term contracts</p> <p>Void works have been tendered and there is, therefore a preferred supplier system in place for voids.</p>	<p>to commence.</p> <p>Interim arrangements are being put in place.</p>



AUDIT COMMITTEE REPORT

Report Title	IFRS and Proposed Changes to the Accounts and Audit Regulations 2003
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AGENDA STATUS: PUBLIC

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

1. Purpose

1.1 To explain to Audit Committee some of the changes arising from:

- International Financial Reporting Standards (IFRS); and
- Proposed amendments to the Accounts and Audit Regulations 2003.

1.2 To explain that the Statement of Accounts will no longer be approved by Audit Committee prior to the Accounts being presented to External Audit for auditing; the Council must now endeavour to get approval of Committee by 30 September.

2. Recommendations

2.1 That the Committee notes the contents of this report; and

2.2 That the Committee specifically notes that the Statement of Accounts will no longer be brought to Committee prior to 30 June and the commencement of the year end audit.

3. Issues and Choices

3.1 Report Background

3.1.1 The Government has been moving the public sector towards the implementation of IFRS since 2008 with a timetable that saw central Government and the NHS moving to IFRS last financial year and local Government this year;

3.1.2 The presentation of the Statements is considerably different under IFRS and there are significant changes in accounting treatment in some aspects, while others remain virtually the same as before; and

3.1.3 In addition, the Government has recently closed a consultation on amendments to the Accounts and Audit Regulations 2003 which include mainly governance and reporting changes, but also clarify a number of technical points. The new regulations are to take effect before the end of March 2011 so will apply to the Statement of Accounts for 2010/11.

3.2 Issues

3.2.1 The Core Statements will change from the previous ones as follows.

Previously Under SORP	In Future Under IFRS
Income and Expenditure Account	Movement in Reserves Statement (MIRS)
Statement of Movement on General Fund Balance	Comprehensive Income and Expenditure Statement
Reconciling Items for the Statement of Movement on General Fund Balance	Balance Sheet
Statement of Total Recognised Gains and Losses (STRGL)	Cash Flow Statement
Balance Sheet	
Cash Flow Statement	

3.2.2 The format of each statement has also changed in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, and the 2009/10 Statement of Accounts has had to be restated in accordance with the new regulations.

3.2.3 The restated 2009/10 Accounts are being audited from week commencing 14 March 2011 by the Audit Commission.

3.2.4 There are a number of areas where key changes have taken place as a result of the move to the new Code and IFRS.

3.2.5 **Leasing** – There has been a change in the criteria for how leases (both where the Council is a lessee and a lessor) are assessed as either operating leases (revenue) or finance leases (capital). Also, that on property leases the land and buildings must be split and separately assessed. Together these changes have altered the status on a small proportion of the Council's leases along with the related accounting treatment.

3.2.6 **Investment Property** – Rules on investment property have changed so that the emphasis is more on investment than property. As such there has been a change in the valuation requirements of investment property so that these are no longer charged to the revaluation reserve, but instead pass through the Comprehensive Income and Expenditure Statement to the Capital Adjustment Account.

- 3.2.7 **Assets Held for Sale** – Assets meeting specific criteria are now held as non current assets held for sale, which are recoded separately on the balance sheet from other fixed assets. The criteria include being immediately available for sale in its present condition, sale being highly probable with completion expected within 12 months of the year end, the asset being actively marketed at a reasonable sale price.
- 3.2.8 **Other Fixed Assets** (Now called Property, Plant and Equipment) – Previously impairment due to consumption of economic benefits could not be charged to the revaluation reserve to net against revaluation gain balances. Under IFRS netting off against any existing credit balances in the revaluation reserve is the required treatment for impairment before looking to charge these to the Income and expenditure account.
- 3.2.9 The second area in relation to property, plant and equipment is component accounting. From 1 April 2010 the authority is required to account for the significant components of these assets so that depreciation reflects the component life rather than the overall asset life. The Council has adopted an accounting policy in relation to component accounting that aims to minimise the impacts of this change in requirements.
- 3.2.10 **Employee benefits accrual** – The Code requires Councils to account for the amount of outstanding annual leave, flexi time and Time of in Lieu (TOIL) outstanding at 31 March each year. Finance has been working with Human Resources to collect this information. The financial value of the untaken leave has to be accrued back into the year it was built up in, creating an Accumulated Absences Account.
- 3.2.11 **Government Grants** – Accounting in this area has become more complex under IFRS, with authorities now needing to have regard to conditions attached to grants. Where grants have no conditions attached, these are passed through the income and expenditure account on receipt, whereas grants with conditions outstanding that have not been met are received into the balance sheet and passed through the income and expenditure account as soon as the conditions have been met. This means that there will be no more amortised grants to match off against depreciation.
- 3.2.12 **Group accounts** – New regulations apply in relation to group accounts. For most entities the criteria now include having the power to control it (either financially or voting power) rather than actually controlling it. There are specific rules relating to special purpose entities which also look at risk and rewards, autopilot (if the agreement is set up in such a way that the special purpose entity is too restricted in how it can operate), etc.
- 3.2.13 In addition to the changes under IFRS the Government is planning to update the Accounts and Audit Regulations 2003, with the amendments taking effect from the 31 March 2011, so these will be applicable to the 2010/11 Statement of Accounts.
- 3.2.14 In addition to various minor alterations, the main change proposed in the Accounts and Audit Regulations is in the approval process. Going forward the Chief Finance Officer and not members will be required to sign off the

accounts as for audit. The Chief Finance Officer will sign by 30 June each year that the draft accounts present a true and fair view. The Chief Finance Officer will re-sign it following the audit and prior to it being brought before the whole body or appropriate committee for approval.

- 3.2.15 The authority must also make best endeavours to have a committee or the body meeting as a whole to consider and approve the Statement of Accounts, the chair of the approving committee sign and date the Statement of Accounts, and publish the accounts together with 'any certificate, opinion, or report issued, given or made by the auditor under section 9 of the 1998 Act' (including on the Council's website) by 30 September each year.
- 3.2.16 This change relates in part to the additional requirements under IFRS and gives Council Finance Teams more time to prepare the additional detail and disclosures required. At the same time it allows members to sign off the final audited version of the accounts rather than an interim document that may require changes.
- 3.2.17 Under the consultation, the Statement of Accounts is accompanied by the Statement of Internal Control at each stage of the approval process, but is not a part of the Statement of Accounts itself.
- 3.2.18 Regulation 22 of the current Accounts and Audit Regulations declares contravention of all or part of 13 of the regulations to be a criminal offence. This has been removed in the proposed new regulations.

3.3 Choices (Options)

- 3.3.1 Members are invited to note the report.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 Changes to accounting policies will be made in order to comply with International Financial Reporting Standards and the IFRS Code.

4.2 Resources and Risk

- 4.2.1 Some of the changes under IFRS will impact on the Council's charges and balances, in particular those relating to leasing.
- 4.2.2 The changes will also impact on whether certain expenditure can be treated as capital. For example where the Council is a lessor on a property that must be designated as a Finance lease under IFRS, subsequent expenditure will be revenue as the asset is not within the assets on the Council's balance sheet. Similarly the principal element of the leasing income would be a capital receipt (subject to the Council's de minimis levels).
- 4.2.3 Until we have fully been through the transition to IFRS, it is difficult to see exactly where and to what degree these changes will impact with certainty,

although the restatement indicates a small negative impact on general fund balances mainly relating to leasing and property plant and equipment.

4.2.4 IFRS implementation involves a higher volume of disclosures and additional supporting detail in back up than the SORP required. This means that the Finance Team is going to be more challenged to meet these requirements and timescales going forward.

4.2.5 There is a risk that no matter how much we have done and do to get the IFRS conversion correct our external auditors may have counter interpretations which will cause the audit process to be less efficient and with potential for requests for higher fees or adverse audit opinion. Finance is doing what it can to minimise this risk.

4.3 Legal

4.3.1 Regulation 22 of the current Accounts and Audit Regulations declares contravention of all or part of 13 of the regulations to be a criminal offence. This has been removed in the proposed new regulations.

4.4 Equality

4.4.1 None

4.5 Consultees (Internal and External)

4.5.1 The Council has worked with accountants from other local authorities in Northamptonshire and Bedfordshire through CAN (Chief Accountants Network) to discuss issues and approaches to treatment of various areas under IFRS.

4.6 Other Implications

4.6.1 None.

5. Background Papers

- 5.1 Code of Practice for Local Authority Accounting in the UK 2010/11
- 5.2 Code of Practice for Local Authority Accounting in the UK 2010/11 Guidance
- 5.3 Service Accounting Code of Practice 2010/11
- 5.4 LAAP 80 (March 2009) – Implementation of IFRS – Draft Project Plan
- 5.5 LAAP 86 (June 2010) – Component Accounting
- 5.6 Revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533) as amended: Consultation, January 2011

Report Author: Rebecca Smith, Assistant Head of Finance 01604 838046

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AUDIT COMMITTEE REPORT

Report Title	Future of Local Public Audit
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AGENDA STATUS: PUBLIC

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

1. Purpose

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

2. Recommendations

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

3. Issues and Choices

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)

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

Appendix 1 – Future of Local Public Audit – Consultation Document

Appendix 2 – Future of Local Public Audit – Proposed Response

Bill Lewis
Head of Finance, ext 7167

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Future of local public audit Consultation

www.communities.gov.uk



Future of local public audit **Consultation**

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Ministerial foreword

“...The Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state. We need to redress this balance.”

Secretary of State for Communities and Local Government 13 August 2010

On 13 August, the Secretary of State for Communities and Local Government announced our plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.

We want to drive power downwards to people. We want local public bodies to be more accountable to their citizens, to you the taxpayer, rather than upwards to Whitehall. That is what localism is all about.

The current arrangements for local audit, whereby a single organisation - the Audit Commission - is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Audit Commission has increased the professionalism and the quality of local government audit, but, it has also become too focused on reporting to central Government and supporting the previous era of a target driven Government.

We are clear that centralised inspection and supervision have no part in localism and that they can be an unnecessary burden on frontline services at a time when they must be tightening their belts and focusing on service delivery; they also drive a culture of compliance rather than initiative and problem solving. If our local services are going to be genuinely responsive, tailored to the needs of local people, then they must be accountable to those same people. This is why we want to put in place a new locally focused audit regime, which is open and transparent but retains the high quality of audit that we expect.

This consultation sets out our vision for the future of local audit. This vision is firmly based on four principles. The first of these is localism. When reforms are complete local public bodies will be free to appoint their own independent external auditors from a more competitive and open market. The second is transparency; local public bodies will become increasingly accountable for their spending decisions to the people who ultimately provide their resources. The third is to remove the overheads charged by the Audit Commission to service the central government machine. At a time when we are taking decisive action to reduce the deficit, we think it is important that we deliver a framework which sees a reduction in the overall cost of audit to local bodies. The fourth principle is high standards of auditing. Make no mistake, we are determined that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.

To meet these principles, the consultation sets out proposals which would see all local public bodies with a turnover of over £6.5m appointing their own independent auditor. This appointment would be made on the advice of an independent audit committee.

Auditors would be regulated under a system which mirrors that of the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. We envisage that the National Audit Office will set the code of audit practice and we have put forward options for the scope of audit in the new framework. The consultation document also sets out how transparency will be increased in the new framework and our proposals for auditing smaller bodies with a turnover below £6.5m in a proportionate way.

Alongside these proposals, the consultation asks a number of questions, to which I would welcome your responses. Your contribution will help us to further develop the framework before publishing legislation in draft in the autumn.

We look forward to hearing your comments on how we can make the future of local audit robust and efficient while ensuring that local public bodies are truly accountable to those they serve.

A handwritten signature in black ink, appearing to read 'Grant Shapps'.

Rt. Hon Grant Shapps MP

Glossary

Accountancy and Actuarial Disciplinary Board

An independent board which has the ability to investigate and discipline accountants and actuaries who are members of the following professional bodies: the Association of Chartered Certified Accountants; the Chartered Institute of Management Accountants; the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants in England and Wales; the Institute of Chartered Accountants of Ireland and the Institute of Chartered Accountants of Scotland.

<http://www.frc.org.uk/aadb/>

Charities Act 1993

The Charities Act 1993 sets out the regulatory framework in which charities operate.

http://www.charity-commission.gov.uk/About_us/Regulation/default.aspx

CIPFA

Chartered Institute of Public Finance and Accountancy is the professional body for people in public finance.

www.cipfa.org.uk

Companies Act 2006

The Companies Act 2006 forms the primary source of UK company law.

<http://www.companieshouse.gov.uk/companiesAct/companiesAct.shtml>

Comptroller and Auditor General

Created by the Exchequer and Audit Departments Act 1866 to authorise funding to Government departments and examine departmental accounts, reporting the results to Parliament.

Drainage Boards

An operating authority, established in areas of England and Wales with particular drainage needs. The Board is responsible for work to secure clean water drainage and water level management.

<http://www.ada.org.uk/>

Financial Reporting Council

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

They also oversee the regulatory activities of the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

<http://frc.org.uk/>

Freedom of Information Act 2000

Legislation which enables any member of the public to request information from a public body.

Grant Certification

The Audit Commission is required by the Audit Commission Act 1998 to make arrangements for the certification of grant claims when requested to do so by public bodies in receipt of grant funds.

Health and Social Care Bill

The Bill takes forward the areas of Equity and Excellence: *Liberating the NHS* (July 2010) and the subsequent Government response *Liberating the NHS: legislative framework and next steps* (December 2010). It also includes provision to strengthen public health services and reform the Department's arm's length bodies.

International Financial Reporting Standards

IFRS is an independent, not for profit private sector organisation which works on behalf of the public sector to develop standardised financial reporting standards.

<http://www.ifrs.org/>

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) develops and promotes proper accounting practice for local government in Scotland in line with legislation, International Financial Reporting Standards (overseen by the International Accounting Standards Board) and the work of the Financial Reporting Advisory Board.

<http://www.cipfa.org.uk/pt/cipfalasaac/index.cfm>

Lord Sharman

Liberal Democrat peer, previously the spokesman for Business, Enterprise and Regulatory Reform and former chairman of KMPG. Lord Sharman's review of audit and accountability for central government, *Holding to Account: the Review of Audit and Accountability in Central Government* was published in February 2001.

http://archive.treasury.gov.uk/docs/2001/sharman_1302.html

Management Commentary

A narrative report which provides the context or background to the financial position, performance and cash flow of an authority or public body.

National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent

and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

www.audit-commission.gov.uk/nfi

Police Reform and Social Responsibility Bill

The Bill will make the police service more accountable to local people by replacing police authorities with directly elected police and crime commissioners to be introduced from May 2012.

Professional Oversight Board

The Professional Oversight Board (POB), formerly known as the Professional Oversight Board for Accountancy, is a UK regulatory body specialising in the accounting, auditing and actuarial professions.

www.frc.org.uk/pob

Public Audit Forum

The public audit agencies, the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit.

<http://www.public-audit-forum.gov.uk>

Public Interest Reports

Under Section 8 of the Audit Commission Act 1998, the appointed auditor is required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public.

Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998 is an Act that protects whistleblowers from detrimental treatment by their employer.

Remuneration report

Companies produce a report containing certain information concerning director's remuneration, governed by the Directors' Remuneration Report Regulations 2002,

Section 151 officer

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

Special Health Authorities

Special health authorities are health authorities that provide a health service to the whole of England, not just to a local community. They have been set up to provide a national service to the NHS or the public under section 9 of the NHS Act 1977. They are independent, but can be subject to ministerial direction in the same way as other NHS bodies.

Unitary Authority

Since 1996 the two-tier structure of local government has ceased to exist in Scotland and Wales, and in some parts of England, and has been replaced by single-tier unitary authorities, responsible for all local government services.

Whole of Government Accounts

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector and audited by the National Audit Office. WGA is a consolidation of the accounts of about 1500 bodies from central government, devolved administrations, the health service, local government and public corporations.

Section 1

1. Introduction

- 1.1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.
- 1.2. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.
- 1.3. This consultation paper discusses the Government's proposals for how a new local audit framework could work and seeks your views.
- 1.4. This document has been developed by the Department for Communities and Local Government. Our proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, accountancy professional bodies, local government, other local public bodies and Government departments with an interest.

What is audit and why is it important?

- 1.5. An audit is the review of financial statements, resulting 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. A summary of accounting arrangements for local bodies other than those in the health sector is at appendix A.
- 1.6. 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 upwards to the elected or appointed members who make decisions about the allocation of resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community. Regular 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.

Current arrangements for the audit of local public bodies in England

- 1.7. There are approximately 11,000 local public bodies which, together, are responsible for some £200bn of public money. Of these, there are 353 local authorities; 268 NHS bodies (in addition to Special Health Authorities audited by the National Audit Office, and Foundation Trusts); 38 police authorities; and 215 other bodies, including fire and rescue authorities; national park authorities; conservation boards; larger internal drainage boards, joint committees; and probation trusts. The remaining 9,800 bodies, with income or expenditure ranging from £1m down to £1,000 or less, comprise: 9,400 parish and town councils; 150 internal drainage boards; and 250 other bodies (for example, charter trustees and port health authorities). A list of the categories of bodies audited by the Audit Commission is set out in Appendix B.
- 1.8. 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.
- 1.9. Acting as the overall regulator, the Audit Commission publishes two statutory Codes of audit practice - one for local government bodies and one for health bodies - which are approved by Parliament. These set the standards for audit and require auditors to comply with the auditing and ethical standards issued by the Auditing Practices Board¹ (which is part of the Financial Reporting Council)². The Commission monitors the quality of audit, although the professional accountancy bodies also monitor their members.
- 1.10. Acting as the commissioner, the Audit Commission appoints auditors, either from its in-house practice or from firms contracted to the Commission, to local public bodies.
- 1.11. The Audit Commission also acts as the main provider in the current system, with 70 per cent of local public audits undertaken by its in-house practice.

Proposals for a new audit framework for local public bodies

- 1.12. The Government believes that the current arrangements for local public audit, whereby a single organisation is the regulator, commissioner and provider of local audit services are unnecessarily centralised. There is a lack of transparency and clarity as well as potential conflicts between the roles.
- 1.13. The proposals set out in this consultation build on the statutory arrangements and professional ethical and technical standards that currently apply to companies. However, those arrangements have been adapted to ensure that the principles of public sector audit are maintained.

¹ <http://www.frc.org.uk/apb/>

² <http://www.frc.org.uk/>

- 1.14. The proposed new local audit regime would continue to provide Parliament with the assurances it needs on public spending. The National Audit Office would prepare the Codes of audit practice, which prescribe the way in which auditors are to carry out their functions, and which would continue to be approved by Parliament, and associated guidance. The National Audit Office would also continue to audit Government departments providing funding to local public bodies and will continue to receive Whole of Government Accounts returns. Registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies, under the supervision of the Financial Reporting Council (as this builds on their existing role in the regulation of private sector auditors) and its operating bodies.
- 1.15. Principal local authorities would appoint their own auditors, with decisions made by full council, taking into account advice from an independently chaired audit committee. Different arrangements would apply for some other local public bodies and these are explained in section 3.
- 1.16. Localism and decentralisation can only work if central government is prepared to trust local bodies, communities and citizens. We have aimed to design a local audit system which provides the rigour needed for Parliament, but allows local public bodies to take more responsibility in the way they procure audit services. These changes go hand in hand with the Government's actions to increase transparency in local government and will help enable local people and local organisations to hold their local public bodies to account for the way that their money is spent.

Design principles

- 1.17. In proposing a new framework for local public audit, we have followed a set of design principles:
- **localism and decentralisation** – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies
 - **transparency** – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
 - **lower audit fees** – achieving a reduction in the overall cost of audit
 - **high standards of auditing** – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit
- 1.18. These principles are not wholly independent. For instance, there is a clear relationship between the quality and scope of the audit and the level of audit fees. We wish to find the right balance to ensure an effective, robust, quality audit for local bodies while keeping fees as low as possible.

1.19. We have also had regard to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. They are:

- **Independence of public sector auditors from the organisations being audited.** Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors; the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.
- **The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money.** Public audit involves more than an opinion on accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to corporate governance arrangements of public bodies.
- **The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.** To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.

Q1: Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

What this consultation covers

1.20. This consultation focuses on the audit of local public bodies that currently have auditors appointed by the Audit Commission. It sets out, in sections 2 and 3, our proposals for the regulation and commissioning of audit, including the various elements of the new regulatory framework and the role local public bodies will have when appointing an auditor. Section 4 covers the scope of local public audit and the work of auditors, while section 5 deals with the way that the proposed framework would apply to smaller local bodies, such as parish councils.

LOCAL BODIES COVERED BY THIS CONSULTATION

1.21. This document sets out proposals for a new framework for most bodies currently audited by the Audit Commission and listed in appendix B.

1.22. However, the Police Reform and Social Responsibility Bill, which is currently before Parliament, aims to make a number of significant reforms to the policing system. This includes provisions to abolish police authorities (excluding the City of London) and replace them with directly elected Police and Crime Commissioners for each police force outside London, and the Mayor's Office for Policing and Crime for the Metropolitan Police.

- 1.23. Police and Crime Commissioners (and Mayor's Office for Policing and Crime) will be responsible for holding the Chief Constable (and Commissioner for London) of their police force to account for the full range of their responsibilities.
- 1.24. Probation services, which used to be part of Local Government's remit, have been a responsibility of central government since consolidation into the Home Office in 2000-01. The financial results of probation trusts have been consolidated into the National Offender Management Service accounts, which are audited by the Comptroller and Auditor General. We believe, therefore, that probation trusts should in future be audited by the Comptroller and Auditor General.

Q2: Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?

- 1.25. Pension funds are not statutorily subject to a full audit separate from that of the local authority. However, the Audit Commission has used its regulatory powers to require pension funds to be audited separately. We propose to include pension funds on the list of local public bodies subject to the new local audit framework.
- 1.26. We consider that Joint Committees should remain subject to audit, but it will be for the constituent authorities making up the Joint Committee to decide whether the Joint Committee is audited separately or as part of one of the authorities' own audits.
- 1.27. The abolition of the Audit Commission will also impact on the audit arrangements for local health bodies. Currently, the Strategic Health Authorities, Primary Care Trusts and NHS Trusts are audited under the Audit Commission framework. The Health and Social Care Bill, currently before Parliament, aims to abolish Strategic Health Authorities and Primary Care Trusts and provides for all NHS Trusts to become Foundation Trusts by 2014. The Department of Health is considering the governance and accountability arrangements for the new health landscape and these will help determine the appropriate audit arrangements. The local public bodies referred to in this consultation paper do not therefore include local health bodies. However, health bodies will be included in draft legislation on the proposals for the new local audit framework. The Department of Health will publish a paper summarising its proposals at the same time.

Audit Commission functions excluded from this consultation

- 1.28. There are a number of functions that are or have been carried out by the Audit Commission that are not considered as part of this consultation. The Secretary of State has announced that the Commission's inspection and research activities would cease. In general, local government and others outside of central Government are well-placed to decide when and where research should

be undertaken. In addition, the National Audit Office, following confirmation of its existing powers, will be able, when reporting to Parliament on the activities of central Government departments, to examine the impact of policies administered by local bodies. As well as contributing to parliamentary accountability, this will provide useful insights for local communities by drawing out examples of what works successfully in different circumstances and how barriers to good value for money are being overcome.

1.29. It will also be possible for an auditor to undertake value for money studies connected to audit work, with the agreement of the audited body. In addition, the National Audit Office would be able to identify and report on wider issues of concern about local bodies' use of resources or common themes of interest, should such issues be identified by the audit process. They could do this, in part, by drawing upon the work of local auditors.

1.30. Other functions, such as grant certification, operation of the National Fraud Initiative and the auditor function of reporting on Whole of Government Accounts returns will continue in some form, but are not considered in detail here. These issues will be covered in the forthcoming draft bill and accompanying consultation.

1.31. The Audit Commission appoints auditors to all local public bodies in England. It appoints its own auditors from the in-house practice to 70 per cent of local public bodies, with the remaining 30 per cent of auditors employed by accountancy firms under contract to the Commission. We are considering a range of options for transferring the Commission's in-house audit practice into the private sector. We expect that an announcement on our preferred option for privatisation of the Commission's audit work will be made ahead of publication of a draft audit bill.

Timing and how to get involved

1.32. This initial consultation will run for 12 weeks with responses invited by 30 June. Following this period, we will consider the responses we receive and will publish a summary and a Government response.

1.33. We then propose to publish draft legislation on the proposals for a new local audit framework which will be subject to pre-legislative scrutiny by Parliament and other interested parties. As part of this process, we will consult again on our proposals, and will publish a consultation stage impact assessment. Following pre-legislative scrutiny, we will prepare for final legislation to be introduced at the earliest opportunity.

Costs

1.34. We are developing an impact assessment which will be published alongside the draft Bill. We would therefore be interested in your views on the costs and benefits of the proposals and options set out in this consultation. This evidence will inform the draft bill proposals and help refine the impact assessment.

Who are we consulting?

1.35. We would welcome comments from organisations affected by the change to the audit of local public bodies, and any other bodies or individuals. This document is available on the Department for Communities and Local Government website (www.communities.gov.uk) and we will be drawing it to the attention of all public bodies currently audited by the Audit Commission, to professional bodies and those involved in regulating audit in England. It is open to all to make representations on the proposed new system of local audit and all submissions will be carefully considered.

How to respond

1.36. Your response must be received by 30 June 2011 to:

foia@communities.gsi.gov.uk

Or to:

Luke Scofield
The Department for Communities and Local Government
Zone 3/G6
Eland House
Bressenden Place
London SW1E 5DU

1.37. Please use the title 'Response to future of local audit consultation'.

1.38. It would be helpful if you could make clear in your response whether you represent an organisation or group, and in what capacity you are responding.

Publication of responses – confidentiality and data protection

1.39. Information provided in response to this consultation, including personal information, may be published, or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.40. If you want any information you provide to be treated as confidential you should be aware that under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply, and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

1.41. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer

generated by your IT system will not, of itself, be regarded as binding on the Department.

- 1.42. The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Section 2

2. Regulation of local public audit

2.1. Audit systems in the UK for both the public and private sector follow the International Standards on Auditing. These include the following common elements of regulation:

- **standards** – setting out what comprises the audit and the quality standards that apply
- **registration** – determining who can audit and ensuring that auditors have the necessary skills, expertise and qualifications in order that there can be confidence in the auditors' work
- **monitoring and enforcement** – ensuring that standards are met and that appropriate action is taken in the case of failure

2.2. The Government believes that having a specific regulator for the local government and the local health sectors in England - less than 10% of the audit market – risks duplication. We therefore consider that, to the extent possible, there should be a consistent regulatory regime for audit, covering the private sector and the local government and local health sectors. This local public audit regime should be focused on local accountability, in the way that the commercial sector is tailored to accountability to shareholders.

Standards and codes of practice

CURRENT SYSTEM

2.3. Under the current system the Audit Commission sets audit standards through Codes of audit practice for the local government and health sectors, which are approved by Parliament. These Codes build on the ethical, auditing and other standards issued by the Auditing Practices Board and are therefore broadly consistent with audit standards applied in other sectors.

2.4. However, the Commission's Codes contain additional standards to reflect the principles of public audit and its wider scope, particularly in terms of regularity and propriety and value for money. They specify the approach to audit for areas not already covered by professional audit standards (such as the 'value for money' conclusion). The Commission also publishes guidance and statements of responsibilities of auditors and audited bodies.

OTHER SECTORS

2.5. Standards for the audit of companies are set by the Auditing Practices Board (part of the Financial Reporting Council), which sets standards and issues guidance for the performance of external audit and in relation to the independence, objectivity and integrity of external auditors. The Auditing Practices Board is also responsible for setting ethical standards for auditors in the private and public sectors.

The Audit Commission's Codes of audit practice

The Commission has a statutory duty to prepare, keep under review and publish statutory Codes of audit practice. There are currently two Codes: one for local government bodies and one for health bodies. The Codes, which are approved by Parliament and must be reviewed at least every five years, set out best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The latest versions of the Codes of practice were published in 2010.

The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime. Each Code:

- sets out the general principles to be followed by auditors in delivering their objectives
- outlines auditors' responsibilities regarding the audit of financial statements and use of resources and
- sets out the range of outputs through which the results of audit are reported

OUR PROPOSALS

2.6. Under our proposals, auditors of local public bodies would continue to follow the auditing and ethical standards set by the Auditing Practices Board. We have considered which body would be best placed to produce the audit Codes of practice and supporting guidance. While this is a role that could possibly be undertaken by the Financial Reporting Council or the profession, we believe that the National Audit Office, given its role in providing Parliament with assurance on public spending, would be best placed to develop and maintain the audit Codes, which would continue to be approved by Parliament. The National Audit Office would also produce any supporting guidance.

Q3: Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Registration of auditors

CURRENT SYSTEM

2.7. The Audit Commission Act 1998 stipulates that for an individual or a firm to be appointed as an auditor, the person/s conducting the audit must be a member of one of the specified professional bodies and has such qualifications as may be approved by the Secretary of State (none have been so approved). The Audit Commission regulates the quality of the work of auditors by setting minimum qualifications a public sector auditor must have in conjunction with standards set by the professional bodies for membership.

OTHER SECTORS

- 2.8. As part of the statutory framework for the audit of companies under the Companies Act 2006, the Professional Oversight Board (part of the Financial Reporting Council), essentially acts as the main regulator, with statutory powers delegated to it by Government for the recognition and supervision of those professional accountancy bodies responsible for supervising the work of auditors or offering an audit qualification – recognised qualifying body and recognised supervisory body e.g. Institute of Chartered Accountants in England and Wales.
- 2.9. Recognised supervisory bodies are responsible for putting rules and arrangements in place which their members must fulfil before they can be registered auditors, both as regards eligibility for appointment as a statutory auditor and the conduct of statutory audit work. A list of recognised supervisory bodies and recognised qualifying bodies for the purposes of the Companies Act is at annex C. The Institute of Chartered Accountants for Scotland maintains the list of registered auditors for the whole of the UK on behalf of the recognised supervisory bodies.
- 2.10. People with responsibility for company audit work at the firm must also hold a recognised qualification, awarded by a recognised qualifying body.
- 2.11. Looking elsewhere, in Finland, auditors who are eligible to audit municipal authorities are included in a register of eligible auditors maintained by the Finnish Board of Chartered Public Finance Auditing. In Italy, auditors who can carry out local public audit are included on a register of auditors managed by the Ministry of Justice.

OUR PROPOSALS

- 2.12. We propose that, as under the Companies Act 2006 (“the Companies Act”), an overall regulator would have responsibility for authorising professional accountancy bodies to act as recognised supervisory bodies for local public audit. Any such body would need to comply with the statutory requirements set out in the proposed primary legislation. It would have the roles of registration, monitoring, and discipline in relation to local public audit.
- 2.13. The Financial Reporting Council is the regulator for Companies Act audit and we propose that it takes on a similar role for the local public audit regulatory regime in England, provided that it can assure the Government that it has both the resources and the expertise to undertake the role, and wishes to do so. It is likely that setting up a separate regulator for local public audit would lead to duplication of work as entirely new systems and procedures would need to be developed.
- 2.14. Recognised supervisory bodies for local public audit could include supervisory bodies recognised under the Companies Act 2006 and any other bodies with sufficient expertise and capacity.
- 2.15. A recognised supervisory body for local public audit could have rules and practices covering:

- the eligibility of firms to be appointed as local public auditors and
- the qualifications, experience and other criteria individuals must reach before being permitted to lead a local public audit engagement and/or sign off an audit report

2.16. We propose to set out, in primary legislation, certain high level criteria that specify that the auditor must be:

- a member of a recognised supervisory body and
- eligible for appointment under the rules of that body

2.17. The legislation will include provisions enabling the supervisory body to develop appropriate detailed rules and practices on other criteria.

2.18. The eligibility criteria will be based on those for the audit of companies as we would like to ensure enough flexibility in the criteria to enable new firms to enter the local public audit market. However, there will need to be additional criteria to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body.

2.19. We propose that all eligible local public auditors would be placed on a public register. This register could be kept by the recognised supervisory bodies for local public audit, or it could be kept by another body.

Q4: Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

Q6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

Q7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Monitoring and enforcement

CURRENT SYSTEM

2.20. The Audit Commission currently monitors the quality of auditors' performance through its annual quality review programme. The Audit Inspection Unit of the Financial Reporting Council reviews the quality of the financial statements audits carried out by the Commission's own audit practice and by private firms on behalf of the Commission.

OTHER SECTORS

2.21. Under the Companies Act, the recognised supervisory bodies are responsible for monitoring the quality of the statutory audits undertaken by their members and for disciplining their members where this is appropriate.

2.22. Some companies that are of public significance because of the nature of their business, their size, or their number of employees can be designated as "public interest entities". In the case of these bodies, the Professional Oversight Board has an additional role in monitoring the quality of the auditing function and the Accountancy and Actuarial Disciplinary Board has a role in investigating significant public interest disciplinary cases and imposing sanctions to those found guilty of misconduct.

OUR PROPOSALS

2.23. We propose that recognised supervisory bodies for local public audit would have responsibility for monitoring the quality of audits undertaken by their members, as they do in the private sector. This work would fall under the monitoring units of these bodies, and would include:

- reviews of individual audit engagements
- reviews of the policies, procedures and internal controls of those firms licensed to carry out the public sector audits
- reporting on the quality of audit to the registration body

2.24. The recognised supervisory bodies for local public audit would investigate complaints or disciplinary cases, as well as issues identified during their monitoring process. They would also be able to stop a firm being eligible for appointment as a statutory local public auditor and remove them from the register of eligible local public auditors.

2.25. We are considering whether the overall regulator (i.e. the body that authorises the recognised supervisory bodies) should have a role in assuring the quality, and undertaking independent investigation of the audit of local public bodies that might be considered analogous to public interest entities for the public sector. The overall regulator would have powers to investigate and discipline in these cases. The process undertaken would be similar to that above, but would provide an additional level of assurance in respect of those bodies.

However, the costs that would fall on the Financial Reporting Council from undertaking this role would be passed on to the audit firms and therefore could be reflected in fees.

Q8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

Q9: There is an argument that by their very nature all local public bodies could be categorised as ‘public interest entities.’ Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

Q10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Section 3

3. Commissioning local public audit services

- 3.1. The Government believes that a localist approach, without an independent central body having a role in appointing an auditor, is an important element of driving accountability to local people rather than to central government. However, maintaining the independence of the auditor in the new system is central to the principles of public audit. Our proposals therefore need to include measures to safeguard the independence of the auditor.

Duty to appoint an auditor

CURRENT SYSTEM

- 3.2. Under the current system, all auditors of local public bodies included in Schedule 2 of the Audit Commission Act are appointed by the Audit Commission. Before making appointments of auditors to local government bodies, the Commission has a statutory duty to consult the body. The Commission has voluntarily extended this practice to health bodies.

OTHER SECTORS

- 3.3. Commissioning takes different forms in different sectors. Under the Companies Act the annual general meeting must agree a resolution on the appointment of the auditor, although this will be based on a recommendation from directors and input from an audit committee.
- 3.4. Looking elsewhere, it is clear that there are different systems for commissioning audit services. However, in the USA local authorities procure their own auditors: an audit committee often appoints 'internal auditors' for their local authority, who then procure the external auditor.

OUR PROPOSALS

- 3.5. We propose that all larger local public bodies (those with income/expenditure over £6.5m) will be under a duty to appoint an auditor. The auditor would need to be on the register of local public statutory auditors, which should help to ensure that the quality of auditors is maintained.
- 3.6. It is equally important as it is in other sectors that those to whom audit is directed have influence but that the independence of the auditor remains paramount. Therefore, for larger public bodies, we propose an approach whereby appointment is made by full council or equivalent, on the advice of an audit committee with opportunities for the electorate to make an input.
- 3.7. We consider that local public bodies will wish to co-operate to ensure that there is wide competition for external audit contracts, and that local public bodies will want to work together to procure an external auditor. We propose to ensure that legislation provides for both joint procurement and joint audit committees.

Q11: Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

- 3.8. Lord Sharman, in his report, *Holding to Account: the Review of Audit and Accountability in Central Government*, was clear that, to maintain confidence, auditors must be independent to avoid improper influence and allow work to be carried out freely. Independence includes the way auditors are appointed. We consider that, as part of a new local audit regime, each larger local public body should have an audit committee with a majority of members independent of the local public body and, with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
- 3.9. A possible structure is set out below. However, there could be alternative arrangements, for example:
- a) only the chair and perhaps a minority of members are independent of the local public body
 - b) a chair and a majority of members independent of the local public body, as described below
 - c) as for (b), but with independent selection of the members independent of the local authorities
- 3.10. We are keen to ensure that local public bodies have flexibility in the way that they constitute and run audit committees. But we need to balance this with ensuring that the minimum requirements for an audit committee set out in legislation provide for an independent audit appointment. We set out below a possible structure and role for the audit committee, some of which may be prescribed in legislation and some of which we would put forward as best practice.

Structure of audit committees

We envisage that in the new system, an audit committee could be structured in the following way:

- 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.
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).
- There would be a majority of members of the committee who were independent of the local public body.

Independent members of the committee

When choosing an independent member of the committee, a person can only be considered for the position if:

- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
- is not a member nor an officer of that or any other relevant authority
- is not a relative nor a close friend of a member or an officer of the body/authority
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate

Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

Q13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Role of the Audit Committee

CURRENT SYSTEM

3.11. As auditors are currently appointed by the Audit Commission there is no role for an audit committee in the appointment of auditors, although the Audit Commission always consults local public bodies before it confirms an audit appointment. However, some local public bodies do have Audit Committees (some of which are independent) with roles in relation to both internal and external audit.

3.12. Health bodies currently have their own form of audit committees following the Financial Reporting Council best practice guidance, comprising of independently appointed non-executive directors governed by their own rules and requirements.

OTHER SECTORS

3.13. The Financial Reporting Council currently produces guidance for the establishment of audit committees for companies, stating that they should be made up of at least three, or in the case of smaller companies two, independent non-executive directors.

3.14. The main role and responsibilities of a company's audit committee are set out in written terms of reference and can include a number of roles, including:

- providing advice to the board in relation to the appointment of external auditors
- approving the remuneration and terms of engagement of the external auditor
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process
- developing and implementing policy on the engagement of the external auditor to supply non-audit services

3.15. Looking elsewhere, audit committees are statutory bodies in each municipality in Finland. Their remit includes preparing the choice and appointment of external auditors. In Canada, the local authority's audit committee also commissions audit services.

OUR PROPOSALS

3.16. It is likely that we would want to specify in legislation some responsibilities that the audit committee should have in relation to the engagement of an auditor and monitoring the independence and quality of the external audit. However, we would not wish to limit the scope of an audit committee so that a local body had no flexibility in designing its role.

3.17. The expanded role of the audit committee would include the provision of advice and guidance to the full council or equivalent (the audit committee may wish to have regard to advice from the section 151 officer) on appropriate criteria for engaging an auditor and advice as to how these criteria could be weighted. The audit committee would be given copies of the bids to evaluate in order that they

may advise the full council or equivalent on the selection process and may, if they wish, indicate which auditor, in their view, presents the best choice.

- 3.18. The full council or equivalent would need to have regard to the advice of the audit committee but would not need to follow its advice. The full council or equivalent would be responsible for selecting an auditor and engaging that auditor on a contractual basis.
- 3.19. Advice provided by the audit committee to the full council or equivalent would be published, although consideration will need to be given to the treatment of commercially confidential material.
- 3.20. If the full council or equivalent did not follow the advice of the audit committee, then it would need to publish on its website a statement from the audit committee explaining its advice and a statement from the full council or equivalent setting out the reasons why the council or equivalent has taken a different position.

Option 1

- 3.21. We could specify only one mandatory duty for the local public body's audit committee, i.e. to provide advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.
- 3.22. It would then be left up to the local public body and the audit committee to decide whether the audit committee should have a wider role in other issues, e.g. setting a policy on the provision of non-audit services by the statutory auditor or reviewing the relationship between the auditor and the audited body.
- 3.23. This option would ensure that the audit committee provided advice to the local public body at crucial moments, but would allow the local public body and the audit committee flexibility to decide on any other functions it may carry out. However, if only the minimum was followed, this may not provide an adequate check on ongoing independence through the auditor's term.

Option 2

- 3.24. We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:
- providing advice to the full council on the procurement and selection of their external auditor
 - setting a policy on the provision of non-audit work by the statutory auditor
 - overseeing issues around the possible resignation or removal of the auditor
 - seeking assurances that action is being taken on issues identified at audit
 - considering auditors' reports
 - ensuring that there is an effective relationship between internal and external audit
 - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
 - providing advice to the full council on the quality of service they are receiving

- reporting annually to the full council on its activities for the previous year

3.25. This option would provide more assurance about the independence of the relationship between the audited body and its auditor, it would also ensure that the audit committee had a wider role in reviewing the financial arrangements of the local public body.

Q15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Q16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

Q17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Q18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Involvement of the public in the appointment of an auditor

CURRENT SYSTEM

3.26. There is no involvement of the public in the appointment of auditors by the Audit Commission to audited bodies.

OUR PROPOSALS

3.27. We envisage that the appointment of an auditor by the local public body should be as transparent as possible so that local people are able to hold their local public bodies to account for the appointment.

Pre-appointment

3.28. The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms. The audit committee would consider these representations when providing advice to the full council or equivalent.

Post - appointment

3.29. The public would be able to make representations at any time to the local public body's audit committee. If a representation identified a significant, or potentially significant, issue relating to the auditor, then the audit committee would be able to provide advice to the audited body on that issue and investigate as appropriate. If the issue identified was material to the ongoing work of the auditor (such as an undisclosed material conflict of interest) then the audited body would need to take such steps as appeared necessary, in accordance with the terms of the contract with the auditor, to address that issue. We may also wish to specify in legislation some statutory requirements relating to conflicts of interest.

Q19: Is this a proportionate approach to public involvement in the selection and work of auditors?

Applicability to other sectors

3.30. The policy of audit committees acting as a safeguard to independent appointment is applicable to all larger local public bodies covered by this framework. The approach may differ depending on the constitution and governance arrangements of those bodies.

3.31. For Police and Crime Commissioners (and Mayor's Office for Policing and Crime) and Chief Constables (and Commissioner for London) we are considering whether the Police and Crime Panel should have a role similar to that of the audit committee. Arrangements for the audit of these policing bodies will be finalised once the Police Reform and Social Responsibility Bill has completed its passage.

Q20: How can this process be adapted for bodies without elected members?

Failure to appoint an auditor

CURRENT SYSTEM

3.32. As the Audit Commission is responsible for appointing the auditors for all audited bodies specified in the Audit Commission Act 1998, the situation where an audited body fails to appoint an auditor does not arise.

OTHER SECTORS

3.33. The Companies Act 2006 provides a default power for the Secretary of State, so that if a private company fails to appoint an auditor or auditors, the Secretary of State may appoint one or more persons to fill the vacancy. If the company fails to make the necessary appointment, the company is required to give notice to the Secretary of State that his power has become exercisable and if the

company fails to give this notice then the company has committed an offence and can be liable for a fine.

OUR PROPOSALS

3.34. The audited body would be under a duty to appoint an auditor. However, there could be some instances under the new system where a body does not fulfil this duty.

Option 1

3.35. In these circumstances we propose that the Secretary of State would be able to direct the local public body to appoint an auditor.

Option 2

3.36. Alternatively, where a local public body does not fulfil its duty to appoint an auditor the Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.

Q21: Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

3.37. It would clearly be against our design principles for the new local audit framework for the Secretary of State to make the auditor appointment for local public bodies. However, some form of assurance will be required that local public bodies have fulfilled their duty to appoint an auditor.

Q22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

3.38. Given that we envisage that the Recognised Supervisory Bodies will hold the register of eligible local public auditors there is an argument that they should be notified if a local public body has appointed or failed to appoint an auditor. However, this could involve a significant cost.

3.39. As the Secretary of State would be able to direct the local public body to appoint an auditor, or could be provided with the power to make the auditor appointment where a local public body does not fulfil its duty to appoint an auditor, an alternative option would be for the local public body to notify the appropriate government department, or a body that the government department specifies, of the auditor appointment. The cost of doing this could be met by the appropriate department, and would provide an effective route for the Secretary of State to exercise his powers to direct the local public body to appoint an auditor, or to make the auditor appointment where the body did not fulfil its duty to appoint an auditor.

Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

Rotation of audit firms and audit staff

CURRENT SYSTEM

3.40. The Auditing Practices Board's ethical standards, which apply to the audit of both private and public entities, require an audit firm to establish policies and procedures to monitor the length of time that audit engagement partners and other key staff serve as members of the engagement team for each audit. These procedures are in place to help ensure the independence and objectivity of auditors.

3.41. The Audit Commission appoints audit firms or its own staff for an initial period of five years. The audit engagement partner can then be appointed for an additional period of up to two years in accordance with the Auditing Practices Board's Ethical Standards (i.e. a maximum of seven years, provided there are no threats to the auditor's independence). The audit manager (the second in command to the audit engagement partner) can be appointed for a maximum of ten years. After this period individuals should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

OTHER SYSTEMS

3.42. In the case of listed companies, the audit firm must have policies and procedures so that:

- no-one shall act as audit engagement partner for more than seven years and
- anyone who has acted as the audit engagement partner for a particular entity for a period of seven years, shall not subsequently participate in the audit engagement with that entity until a further period of five years has elapsed

3.43. The audit committee of a company assesses the independence and objectivity of the external auditor annually, taking into consideration regulatory and professional requirements. This assessment involves a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.

OUR PROPOSALS

3.44. We envisage that the new audit framework would be in line with the current ethical standards regarding the rotation of staff within the audit firm.

3.45. The audited body's audit committee would have a role in monitoring the independence and objectivity of the body's external auditor.

- 3.46. In relation to the rotation of the firm, an audit firm would be reappointed annually by the full council on the advice of the audit committee (who may want to provide advice on the quality of service received in the previous year) but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive five year period, following competition.
- 3.47. To preserve independence, we propose that the audited body would need to procure a different audit firm at the end of the second five year period. This will help to ensure that in carrying out their responsibilities auditors are not influenced by their desire to secure re-appointment.

Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Q25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Q26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Resignation or removal of an auditor

CURRENT SYSTEM

- 3.48. In the current situation there is not a direct contractual relationship between the auditor and the audited body - the relationship is with the Audit Commission. It is therefore not possible for the audited body to remove the auditor and the auditor does not need to resign because of issues arising with the audit.
- 3.49. In the event that there was a breakdown in the relationship between the auditor and audited body the Audit Commission can consider rotating suppliers.
- 3.50. The audit engagement partner or audit team may change during the appointment and the Audit Commission can and does rotate between firms and its in-house practice undertaking the audit, including if the audited body requests it.

OTHER SECTORS

Resignation

3.51. In the companies sector, if an auditor ceases for any reason to hold office, he must deposit a statement at the company's registered office which will usually set out the circumstances connected with his ceasing to hold office. If the circumstances are set out in the statement (in the case of a quoted company), the company must send a copy of the statement to all members of the company unless it makes a successful application to the court to stop this.

3.52. If (in the case of an unquoted company) the circumstances are not set out in the statement, the auditor must deposit a statement with the company to that effect but the company does not have to circulate this statement to its members.

3.53. When an external auditor resigns, the audit committee of the company will investigate the issues giving rise to such resignation and consider whether any action is required.

Removal

3.54. The members of a company may remove an auditor from office at any time during their term of office. They, or the directors, must give 28 days notice of their intention to put to a general meeting a resolution to remove the auditor. The company must send a copy of the notice to the auditor, who then sends it to the company's members. The auditor may speak at the meeting where the resolution is to be considered. Although a company may remove an auditor from office at any time, the auditor may be entitled to compensation or damages for termination of appointment.

OUR PROPOSALS

3.55. We envisage that a body might wish to remove its auditor, or an auditor might wish to resign, only in exceptional circumstances, for example, an auditor being in breach of the ethical standards, or a complete breakdown in the relationship between the auditor and audited body.

3.56. However, we recognise the importance of having stringent safeguards in place for the resignation and removal of an auditor to protect the independence of the auditor and the quality of the audit. These safeguards would broadly mirror those in the Companies Act, but would be adapted to reflect the principles of public audit. The process would be designed to ensure that auditors are not removed, or do not resign, without serious consideration.

Resignation

3.57. We envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the auditor still wished to resign he should give 28 days written notice of his intention to the audit committee and the audited body, setting out his intention to resign. The audited body should then make a written response, which it should send with the auditor's written notice, to its members and the audit committee. The auditor will then be required to deposit a statement at the audited body's main office and with the audit committee, which should be published on its website. The statement

would set out the circumstances connected with the resignation of the office that are relevant to the business of the audited body.

3.58. The audited body would need to notify the body responsible for maintaining the register of appointed auditors, and the auditor will need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the resignation and considering whether any action is required.

Removal

3.59. Again, we envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the audited body still wished to remove its auditor, it should give 28 days written notice of its intention to the audit committee and to the auditor. The audited body should put to a public meeting, or full council meeting, a resolution to remove the auditor. The audited body would also send a copy of this notice to the auditor.

3.60. The auditor would then have the right to make a written response, which the body would need to send to its members and the audit committee, and to speak at the meeting where the resolution is to be considered. A representative from the audit committee should also be able to speak at the meeting. The auditor would be required to deposit a statement at the audited body's main office and with the audit committee, which would need to be published on its website. This statement would set out the circumstances connected with the cessation of their office that are relevant to the business of the audited body.

3.61. The audited body would need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the removal and considering whether any action is required.

3.62. A right of access to the previous auditor's audit working papers (from the previous year and/or current) should be provided to incoming auditors in cases of resignation or removal or any other instances where the audit firm changes. This right should extend to all aspects of the previous auditor's responsibilities and not just to work on the audit of the financial statements.

Q27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Auditor liability

3.63. In the private sector, auditors are concerned about the consequences of the risks of litigation, as a result of actual or perceived failing by auditors. These concerns have been fuelled by legal judgments about the extent of auditors' duty of care to third parties, such as potential investors and the banks. They have increasingly caused auditors to caveat their audit opinions by explicitly limiting their duty of care and by seeking to limit their liability. Case law has established that the duty of care of auditors appointed by the Commission is to the audited body itself and not to third parties. Public authorities can sue their auditor for breach of duty.

CURRENT SYSTEM

3.64. There are particular issues in the public sector where auditors may exercise special powers. The Audit Commission currently indemnifies auditors for the costs they incur where they are engaged in litigation arising from the exercise of such powers. This ensures that auditors are able to exercise their functions with the certainty that their costs will be met.

OTHER SECTORS

3.65. In the companies sector, the Companies Act provides that general provisions that protect auditors from liability for negligence, default, breach of duty or breach of trust in relation to the company, or provide an indemnity against liability are void, but:

- does not prevent a company from indemnifying an auditor against any costs incurred by him in defending proceedings in which judgment is given in his favour or in the granting of relief by the court in the case of honest and reasonable conduct
- allows for a "liability limitation agreement" to be put in place if it is authorised by the members of the company, provided it complies with the content permitted in the Companies Act

OUR PROPOSALS

3.66. In the absence of a central body providing indemnity to audit firms, it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual negotiations. A legislative framework, similar to that in the companies sector, could set out the process for setting and agreeing liability limitation agreements. Without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.

Q28: Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Section 4

4. Scope of audit and the work of auditors

4.1. In this chapter, we look at the scope of the audit and the options for the elements of local public bodies' finance and the arrangements that auditors should assess. The duty for the auditor to issue a report in the public interest is also considered. This section asks whether auditors should be able to carry out additional, non-audit, work for the audited body, and considers the various safeguards that could be introduced to ensure that auditor independence is not compromised.

Scope of local public audit

4.2. The starting point is the principles of public audit, in particular the wide scope of the audit covering the audit of financial statements, regularity and propriety and value for money.

CURRENT SYSTEM

4.3. Public sector accounting in the UK has recently moved to adopt International Financial Reporting Standards adapted as necessary for the public sector (for local government audits from 2010-11).

4.4. Currently, the auditor of larger local public bodies is required to:

- give an opinion on whether the accounting statements give a true and fair view of the audited body's financial position and of its income and expenditure
- provide a conclusion as to whether the body has proper arrangements for securing value for money, having regard to specified criteria (such as financial resilience and to regularity and propriety) and in accordance with guidance issued by the Commission
- review and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement and the remuneration report and
- (for local government) review and report on the Whole of Government Accounts return

4.5. Smaller local public bodies are currently subject to a limited assurance regime. We believe that it is important for smaller bodies to continue to be dealt with proportionately under the new framework and discuss this in more detail at Section 5.

OTHER SECTORS

Companies

4.6. The scope of audit for companies is based around the financial statements produced by the company and a report that the directors are required to produce which must describe the company's principal activities, a review of the business and an indication of future developments.

4.7. Statutory auditors of companies include in their report, statements as to whether, in their opinion:

- the accounts have been prepared in accordance with the Companies Act 2006
- the accounts give a “true and fair “ view of the company’s financial statements
- the director’s report is consistent with the accounts
- the remuneration report is properly prepared

Charities

4.8. Any charity which has income above the audit threshold in the financial year must have an audit of its financial statements undertaken by a registered auditor. This is in line with the treatment of companies.

4.9. The Charities Act 1993 also requires all registered charities to prepare a Trustees’ Annual Report. The length of the report and the amount of detail included in it can be in proportion to the charity’s size so for small charities it can be a very simple report.

Central government

4.10. The Comptroller and Auditor General, with the support of the National Audit Office, is responsible for auditing the financial statements of all central Government departments, executive agencies and a wide range of other public sector bodies.

4.11. When certifying the accounts of central government departments, the Comptroller and Auditor General states whether, in his opinion:

- the financial statements give a “true and fair” view of the financial position of the body
- the financial statements have been properly prepared in accordance with underpinning legislation
- in all material respects the transactions recorded in the financial statements are in accordance with Parliamentary or other authority (regularity)
- information given in the Management Commentary/Annual Report is consistent with the financial statements
- the audited part of the Remuneration Report has been properly prepared in accordance with relevant guidance

4.12. The Comptroller and Auditor General also has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

OUR PROPOSALS

4.13. When looking at the future scope of audit for local public bodies we have considered whether we should move to a more transparent model, such as that followed by companies and charities which must produce a director or trustee’s report. Central Government departments are also required to prepare an Annual Report along similar lines. However, we recognise that public money

must be accounted for in a certain way, including assuring regularity and propriety and with the necessary focus on value for money. With this in mind, for larger public bodies we have identified the following three options to deliver effective audit that conforms to the principles of public audit.

Option 1

4.14. The scope of audit could be reduced to be more in line with that for companies, with no assessment of value for money. The auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure and
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.15. This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.

Option 2

4.16. As under the current system, the auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure; and
- provide a **conclusion** as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.17. This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money.

Option 3

4.18. New arrangements could provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an **opinion** on the financial statements, but would provide **conclusions** on:

- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime

- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

4.19. We will need to consider carefully how a stronger value for money element to the audit would fit with other sectors, such as policing, who already have alternative systems for examining and reporting value for money publicly.

4.20. We believe that, compared to option 1 and 2, option 3 could lead to greater transparency for local citizens, and would help deliver the wide scope of public audit. It would also require a separate conclusion on regularity and propriety and financial resilience, rather than having regard to these aspects within a conclusion on value for money (as in option 2). However, the volume of work undertaken by the auditor would be significantly greater than for option 1. It is also possible that auditors would have difficulties in reaching a robust conclusion on value for money, regularity and propriety. We expect that reaching a conclusion on the achievement for value for money would involve more work for auditors, particularly in the case of complex organisations such as principal local authorities.

Option 4

4.21. Local public spending should be transparent so that citizens can hold bodies to account. Companies are required, by law, to produce and publish an annual report, including the principal activities of the company during the year, and a business review which includes risks and uncertainties. Most public bodies also produce such a report, although local authorities are not currently required to do so.

4.22. Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.

4.23. The auditor would be required to:

- give an opinion on the financial statements
- review the audited body's annual report and
- provide reasonable assurance on the annual report

4.24. The annual report could be written in an accessible way and would be published. This option could therefore substantially increase the transparency of the local public bodies, compared to options 1 and 2. Citizens' increased knowledge of the local public body's financial performance could help drive greater local accountability. We would need to consider whether producing an annual report in an appropriate format would be a new burden for local authorities that do not currently produce an annual report in an appropriate format.

4.25. Another possible benefit of this option, is that it brings the format of audit for local public bodies (financial statements and reviewing a report) more in-line with that of other sectors.

Q29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options?

Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

Q31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

Public interest reporting

CURRENT SYSTEM

4.26. Under Section 8 of the Audit Commission Act 1998, the auditor is currently required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public. The auditor can also make written recommendations to the audited body as part of this report. The audited body has a corresponding duty to consider and respond to these reports and any recommendations that might be made. The costs of the report fall on the audited body.

4.27. Appointed auditors have issued 131 public interest reports since 2002, of which 13 have related to principal local authorities, 85 to parish councils, 30 to health bodies and one each to a passenger transport authority (now an integrated transport authority), a passenger transport executive, and an internal drainage board.

4.28. In addition to the auditor's duties to report in the public interest, they also have the power to make a recommendation requiring a public response and can issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

OTHER SECTORS

4.29. Although public interest reporting is a consequence of the principles of public audit, there are some similarities with processes in place in other sectors.

4.30. The auditor of a regulated entity generally has special reporting responsibilities in addition to the responsibility to report on financial statements. One of these special reporting responsibilities is a statutory duty to report certain information, relevant to the regulators' functions that come to the auditor's attention in the course of the audit work. This form of report is derivative in nature and is initiated by the auditor on discovery of a reportable matter.

OUR PROPOSALS

4.31. We consider it is important that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them. This is consistent with the design principles of localism and transparency.

4.32. We envisage that the current publication requirements for public interest reports would be retained, as would the audited body's responsibilities to consider the report at a meeting within one month of receipt and to publish a summary of the meeting's decision.

4.33. The costs of public interest reports will fall on the audited body. It has been suggested that the new direct contractual relationship between the audited bodies and their auditors could have, if unchecked, an impact on the ability or willingness of the auditor to issue a public interest report. However, we believe that if suitable safeguards are put in place for the resignation or removal of auditors, this will mitigate the risk.

4.34. We also propose to retain the power of an auditor to make a recommendation requiring a public response and to issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

Q34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?

Provision of non-audit services

CURRENT SYSTEM

4.35. The auditor may be best placed to carry out certain types of additional work for the audited body. Therefore, the Audit Commission allows additional work to be undertaken without prior approval from the Commission, if the auditor is satisfied that:

- performance of such work will not compromise, nor be reasonably perceived by the public to compromise, his independence and
- the value of the work in total, in any audit year, does not exceed a de minimis amount (set by the Audit Commission as the higher of £30,000 or 20 per cent of the total audit fee, excluding fees for the certification of grant claims and returns)

4.36. Auditors are required to establish procedures to identify and address any potential breaches of these requirements.

4.37. All such work must be:

- agreed in advance with the audited body, on the understanding that such work is discretionary and is not required to meet the auditors' statutory responsibilities and
- billed separately from the audit work

The Commission requires applications for approval to carry out work exceeding the de minimis threshold at least ten days before the start of the work.

OTHER SECTORS

4.38. In other sectors, such as the companies sector, statutory auditors are allowed to provide other non-audit services to the company.

4.39. However, the audit committee of the company has a role in considering all relationships between the company and the audit firm, including the provision of non-audit services and whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.

4.40. The audit committee should also develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor, and keep the policy under review. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

OUR PROPOSALS

4.41. We propose that auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any actual or perceived threats to the auditor's independence. We recognise that by adding a number of safeguards into the system we could reduce the number of auditors eligible for appointment to an audited body, which would in turn affect competition.

4.42. We propose that auditors should continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.

Q35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Public interest disclosure

CURRENT SYSTEM

4.43. Under the current framework, the Audit Commission and appointed auditors are prescribed persons under the Public Interest Disclosure Act 1998 for disclosures relating to “the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies”. The Audit Commission and appointed auditors consider information they receive as a result of a disclosure and determine what action, if any, to take in the context of their existing statutory and professional powers and duties.

4.44. We recognise the importance of the roles undertaken by prescribed persons including the Audit Commission and appointed auditors. It provides reassurance to workers that it is safe and acceptable for them to raise concerns internally and sets out the circumstances where the disclosure of the malpractice outside of the organisation is in the public interest and should be protected.

The Audit Commission’s role in public interest disclosure

The Audit Commission is a ‘prescribed person’ as set out in the Schedule to the Public Interest Disclosure Act. It exercises this role by:

- receiving the facts of a disclosure
- supporting the discloser by referring them to Public Concern at Work for further advice and guidance if subjected to victimisation or harassment;
- acknowledging receipt of the disclosure and stating in general terms what the procedures are
- forwarding information to the auditor and inform the discloser

The current role of the appointed auditor

The auditor’s role includes:

- evaluating the information provided by the Commission
- acknowledging receipt to the discloser, and providing an indication of the likely response, with an explanation for the decision
- undertaking appropriate audit work in response to the disclosure
- reporting the outcome of any work to the discloser and the Commission

OTHER SECTORS

4.45. The Financial Reporting Council's guidance for the audit committees of companies sets out a role for the audit committee in reviewing arrangements under which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

OUR PROPOSALS

4.46. We believe it is important that a similar system operates in the new framework. We propose that the Audit Commission's role (receiving, acknowledging receipt of and forwarding the facts of disclosure) should be broadly transferred to the audit committee of the local public body. The audit committee may choose to designate one of its independent members as a point of contact. As this role is an administrative role, which involves no need to consider the issue they are transferring, we do not see this as an additional burden on audit committees.

4.47. We envisage that the statutory auditor of the local public body would continue to be a prescribed person and would continue with his/her role with no change from the current system.

Q37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Transparency

CURRENT SYSTEM

4.48. Members of the public currently have rights to question the auditor of an audited body about its accounts and raise objections, if the audited body is not a health body, in respect of unlawful items of account or matters on which the auditor can make a report in the public interest. The auditor may also apply for a declaration to the Court. Objectors have the right to appeal to the Courts about an auditor's decision.

4.49. Auditors have only limited discretion to refuse to investigate objections, but the costs of investigating objections, which are recovered from the local public body and, therefore, funded by council taxpayers, can be disproportionate to the sums involved in the complaint, or to the normal audit costs of the local public body.

4.50. The right to object to the accounts was first introduced more than 150 years ago, at a time when the auditor was the only individual to whom an elector could raise issues of concern.

OUR PROPOSALS

- 4.51. The public can now raise concerns through a wide variety of appropriate avenues for redress, including the Local Government Ombudsman (in relation to maladministration) and the Information Commissioner (on matters concerning the rights that individuals have under the Freedom of Information and Data Protection Acts). Publication of all expenditure over £500 also makes spending more transparent and more readily available to the public.
- 4.52. With this in mind, we consider that the rights for local government electors to object to the accounts are both outdated and over-burdensome on auditors, local public bodies and council tax payers.
- 4.53. Under the new local audit framework, members of the public would retain the right to make representations to the auditor, raise issues with the auditor and to ask the auditor questions about the accounts.
- 4.54. While the right to make formal objections would be removed, the local public body would still be required to advertise that its accounts had been prepared and there will be increased publicity requirements for audited bodies. The auditor would still be open and transparent about the audit, and would consider any relevant representations from the public. The auditor would have discretion to decide whether to follow-up any issues raised by local citizens, having regard to the significance of the issue, the amounts of public money involved and the wider public interest. If the auditor decided not to consider a representation further, the decision would be amenable to judicial review, should the citizen who made the representation be dissatisfied with the decision.
- 4.55. We propose that auditors should also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Therefore, only information in connection with a public audit would be within the remit of a freedom of information request. However, we recognise that there are costs associated with responding to freedom of information requests which could have an impact on audit fees. We would also need to consider whether this could be detrimental to the auditor and audited body's relationship.
- 4.56. We also envisage that local public bodies should be required to publish their accounts and the auditor's report on the website.
- 4.57. We consider that these proposals would provide a balance between transparency and disproportionate cost.

Q38: Do you agree that we should modernise the right to object to the accounts? If not, why?

Q39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Q40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Q41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

Section 5

5. Arrangements for smaller bodies

Current system

The limited assurance audit regime

The limited assurance audit regime was first introduced in 2001-02 for local councils (parish meetings and parish and town councils) where neither income nor expenditure exceeded £500,000. This threshold was increased to £1m in 2006.

The regime is designed specifically to minimise the audit requirement upon, and cost to, these small bodies. The audits are based on the submission by the body to the auditor of an annual return that is subject to a desk review. The audit report provides a limited level of assurance to the body commensurate with the amount of work undertaken.

The basic audit approach is common to all smaller bodies. However, for those bodies with annual income or expenditure over £200,000, auditors are required to carry out additional testing as part of their audit approach to reflect the higher risk to public funds; this is referred to as the intermediate audit. In addition, on a random sample basis, 5 per cent of those bodies operating below the £200,000 threshold will also be selected annually for intermediate audit at no extra cost.

- 5.1. Under the current legislation, the statutory audit requirements for smaller bodies are the same as those for larger bodies. However, since 2002, the Audit Commission has ensured that these are met proportionately through a separate “limited assurance” framework for bodies with an income or expenditure less than £1m. The smallest bodies currently do not pay any fees for their annual audit.
- 5.2. To bring this into line with the framework under the Companies Act the £1m threshold for local public bodies is being increased to not more than £6.5m.

OTHER SECTORS

- 5.3. The companies and charities sector, both have arrangements in place to ensure a more proportionate level of audit for smaller bodies.

Charities

- 5.4. The Charities Act 1993 put in place a system by which some small charities could be subject to independent examination rather than a full audit.

Independent Examination v Audit (Charity Sector)

The two main differences between independent examination and audit relate to:

- Who can act
- The nature of the report.

	Who can act	The nature of the Report
Independent Examination	An independent person who is reasonably believed by the body to have the requisite knowledge and practical experience to carry out a competent examination of the accounts. No specific qualification is necessarily required but the person must have a good understanding of accounts.	Provides a "negative assurance" on the accounts. The independent examiner declares that no evidence was found of lack of accounting records, of accounts failing to comply with the records, nor of other matters that need to be disclosed.
Audit	Must be a registered auditor	An audit report will need to provide an opinion on the financial statements

5.5. The level of independent examination is dictated by the level of gross income of the charity.

Level of Gross Income	External scrutiny	Annual Report
Not exceeding £10,000	There is no requirement to have the accounts independently examined or audited	The trustees must prepare an annual report but it may be simplified.
Over £10,000 but not exceeding £100,000	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor	An Annual Report must be prepared but it may be simplified
Over £100,000 but not exceeding £500,000 (total assets not exceeding £2.8m)	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor. If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the 2006 Act.	An Annual Report must be prepared but it may be simplified
Exceeds £500,000 (or a charity whose gross assets exceed £2.8m and gross income exceeds £100,000)	A statutory audit is required (subject to specified exceptions) and the accounts must be audited by a registered auditor.	A full Annual Report must be prepared

- 5.6. Company charities used to be dealt with under the Companies Act 2006 system. However, from the financial year beginning on or after 1 April 2008 all charities (including company charities) are subject to the Charities Act 1993 system. The purpose of this change was to ensure that the scrutiny of small company charities was consistent with charity law requirements and in particular allowed for the independent examination of eligible small company charities.
- 5.7. Company charities which meet the Companies Act definition of a small company may elect for exemption from audit under the Companies Act and opt to have their accounts audited or independently examined under the Charities Act 1993.
- 5.8. Independent examination offers a lower cost alternative to charities that do not require the higher level of assurance that audit can provide. Changes effective from this date also result in new requirements for the audit of small groups when their accounts are prepared by parent company charities.

Companies

- 5.9. The Companies Act 2006 sets out the thresholds which must be met for a company to be deemed a small company. These are, at least two of the following three conditions:
- annual income or expenditure (gross income for charities) not exceeding - £6,500,000
 - balance sheet total not exceeding - £3,260,000
 - average numbers of employers not exceeding – 50
- 5.10. These thresholds are subject to periodic amendment.
- 5.11. There is exemption from audit for **certain** small companies if they are eligible and wish to take advantage of it. To qualify for audit exemption, a company must:
- qualify as small (per paragraph 5.9) **and**
 - have an income or expenditure of not more than £6.5m **and**
 - have a balance sheet total of not more than £3.26m
- 5.12. Even if a small company meets these criteria, it must still have its accounts audited if this is demanded by a member or members holding at least 10 per cent of the nominal value of issued share capital or holding 10 per cent of any class of shares. Public companies are not eligible for exemption.

OUR PROPOSALS

- 5.13. Both the limited assurance and independent examination regimes outlined above provide a simpler, more proportionate, form of external scrutiny than a full audit, but still provide assurance that the accounts of the bodies involved have been reviewed by an independent person.

- 5.14. We aim to bring arrangements for smaller local public bodies into line with other sectors. We are therefore considering a process under which the income and expenditure of a body determines what 'level' of audit or scrutiny is required; the greater the income/expenditure, the more scrutiny is required.
- 5.15. We propose that the 1,200 or so bodies with income or expenditure less than £1,000 would not be subject to an external examination or audit, as the risk to public funds is low and any external examination or audit fees would be disproportionate to their income or expenditure. These bodies do not currently pay a fee for an audit or examination, and requiring them to now do so would clearly increase their costs.
- 5.16. Bodies with an income or expenditure between £1,000 and the upper threshold of £6.5m would be subject to an independent examination rather than a full audit.
- 5.17. Examiners of small bodies should act for a maximum period of 10 years (which is in line with the current practices of the Audit Commission).
- 5.18. We propose that the independent examination of smaller bodies should be similar to that followed in the charities sector. As we have set out above, the charities sector provides for a reduced audit for bodies with income or expenditure below £500,000. However, the Audit Commission has provided limited assurance to all bodies with income or expenditure under £1m recently raised to not more than £6.5m. We are keen to ensure that smaller bodies are not disproportionately affected by our proposals. Therefore we propose a staged model such as the model followed in the charities sector, where the level of examination and the qualifications that the independent examiner must have are based on the income or expenditure of the body. However, this staged model would reflect the current £6.5m threshold used by the Audit Commission for their limited assurance regime. The independent examination of smaller bodies might therefore look as follows:

	Number	% small bodies market	Income/Expenditure	Scrutiny
Level 1	1,200	12%	Public bodies with expenditure less than £1,000	<ul style="list-style-type: none"> Existing governance and accounting arrangements Annual accounts published Positive confirmation that annual accounts have been produced and published via the precept request (or equivalent) No external audit/scrutiny
Level 2	Approx 6,400 bodies	64%	Public bodies with expenditure between £1,000 and £50,000	<p>As level 1, but</p> <ul style="list-style-type: none"> (Under option 1 below) the county or unitary council to appoint an independent examiner (no specific qualifications needed, but County or unitary council should assure itself that the relevant person has the requisite experience and expertise) to assess its accounts. In practice the Section 151 officer or full council, having regard to advice provided by the audit committee, would make this appointment. The independent examiner might be an officer of the county or unitary council. The body must also publish the details of the examiner.
Level 3	Approx 1,625 bodies	16%	Public bodies with expenditure between £50,000 and £250,000	<p>As level 2, but:</p> <ul style="list-style-type: none"> Existing internal audit arrangements Independent examiner must hold a professional qualification to assess its accounts.
Level 4	Approx 675 bodies	7%	Public bodies with expenditure between £250,000 and £6.5m	<p>As level 3, but</p> <ul style="list-style-type: none"> Independent examiner must hold a professional qualification and be registered as a public auditor.

Appointing the examiner

OPTION 1

5.19. We consider that the appointment process for the independent examiner should be proportionate. An audit committee could be a significant cost for a smaller body. Instead, where an independent examiner is required, we propose that the county or unitary authority should be responsible for appointing the independent examiner (see table above). If smaller bodies were responsible for appointing their own examiner in the absence of an audit committee there would be a lack of independence in the appointment process. In addition, they may not achieve a good price for this service.

5.20. If the county or unitary authority was responsible for the appointment this would provide a degree of independence to the appointment process for smaller bodies, and they would have the ability to appoint independent examiners for all of the smaller bodies in their areas, providing the opportunity to make savings through economies of scale.

OPTION 2

5.21. The small body would be required to make arrangements for the appointment of the independent examiner, ***including*** the involvement of an audit committee. This would give the body the freedom to make the necessary arrangements which might include joining up with other small bodies, either locally or providing similar services. The smaller bodies would be able to arrange a joint audit committee, with safeguards to provide for independence. Alternatively, the small body would be able to join with a larger local public body and utilise their audit committee. Under this option the scope of the examination would still be as set out in the table above.

Q42: Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Q43: Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

Q44: What guidance would be required to enable county/unitary authorities to:

- a.) Appoint independent examiners for the smaller bodies in their areas?**
- b.) Outline the annual return requirements for independent examiners?**

Who should produce and maintain this guidance?

Q45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Q46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Q47: Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

Public interest reporting for smaller bodies

5.22. There would be no auditor to receive queries or objections from the public, and there would be no public interest reporting. However, if the examiner identified issues giving cause for concern we propose that these could be raised with the audited body, or the county or unitary authority. The county or unitary authority could be given the power to appoint an auditor to then carry out a public interest report on the matters raised with the audited body. Sanctions could include a power to make the next precept (partly or wholly) conditional on the matters raised being addressed.

Q48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

Objections to accounts of smaller bodies

5.23. For bodies with an income or expenditure greater than £6.5 million we are proposing to modernise the system for dealing with objections to accounts.

5.24. In the case of smaller bodies, we propose that the independent examiner would be able to consider whether to refer issues raised by citizens to the proper officer (possibly the s151 officer) of the county or unitary authority. That authority would be provided with powers to take action, which might include appointing an auditor to consider those issues and report in public to the examined body. The costs for dealing with the representation would fall to the smaller body.

Q49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

Regulatory regime for smaller bodies

5.25. For smaller bodies the more proportionate approach described of independent examination would not give rise to the same level of scrutiny as an external audit.

5.26. However, if appointing the independent examiner to the smaller body, or if provided with powers to take action, which might include appointing an auditor to carry out a public interest report, the county or unitary council would, essentially, be the regulator for this sector.

Q50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Section 6

6. List of consultation questions

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?
15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?
19. Is this a proportionate approach to public involvement in the selection and work of auditors?
20. How can this process be adapted for bodies without elected members?
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?
27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?
28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?
29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?
31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?
38. Do you agree that we should modernise the right to object to the accounts? If not, why?

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?
41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?
44. What guidance would be required to enable county/unitary authorities to:
- a.) Appoint independent examiners for the smaller bodies in their areas?
 - b.) Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?
45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?
46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?
47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Appendix A

Audited bodies' published accounts – current arrangements

The annual accounting statements that audited bodies, other than NHS bodies and probation bodies, are currently required to publish are prescribed in Accounts and Audit Regulations made under section 27 of the Audit Commission Act 1998. A new consolidated set of the regulations has recently been issued. The accounting statements for all the bodies must cover the year ending on 31 March.

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 those standards are 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

Where the body has significant subsidiaries or associates Group Accounts must also be included. The statement of accounts is accompanied by a statement of internal control or annual governance statement, setting out the body's annual assessment of how it is managing and controlling the risks it faces in achieving its aims and legal obligations.

The smaller bodies are given a choice on the form of their annual accounting statements. They can prepare either:

- a statement of accounts on the same basis as a larger body or
- an income and expenditure account and statement of balances or
- where the body's annual income or expenditure is no more than £200,000, a record of receipts and payments

For the second and third options the requirements are specified in an Annual Return that the body is required to present to the auditor and publish. The form of the Annual Return is laid out in *Governance and Accountability for Local Councils, a Practitioners' Guide*, available from the National Association of Local Councils.

The accounting statements for both the larger and smaller bodies must be audited (for smaller bodies the audit is a 'limited assurance' - a simpler, more proportionate, form of external scrutiny than a full audit). 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. The larger bodies are required to publish the statements on their websites, and the smaller bodies by displaying them within their area, though both are free to use other means of publication in addition.

Appendix B

List of bodies to which the Audit Commission appoints auditors in England

The audit bodies which are specified in primary legislation are³:

- A local authority (meaning a county council, district council, London borough council and a parish council).
- A joint authority (which means an authority established by Part 4 of the Local Government Act 1985, includes metropolitan county fire and rescue authorities).
- The Greater London Authority.
- Passenger Transport Executive.
- A functional body (meaning Transport for London, the London Development Agency, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority).
- The London Pensions Fund Authority.
- The London Waste and Recycling Board.
- A parish meeting of a parish not having a separate parish council.
- A committee of a local authority, including a joint committee of two or more such authorities.
- The Council of the Isles of Scilly.
- Any Charter Trustees constituted under section 246 of the Local Government Act 1972.
- A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the National Health Service Act 2006.
- A Port Health Authority constituted under section 2 of the Public Health (Control of Disease) Act 1984.
- The Broads Authority.
- A national park authority.
- A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000.
- A police authority established under section 3 of the Police Act 1996.
- A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies.
- An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities).
- A licensing planning committee.
- An internal drainage board.
- A local probation board established under section 4 of the Criminal Justice and Court Services Act.

³ It is proposed through the Police Reform and Social Responsibility Bill that police and crime commissioners and chief constables will be added to schedule 2 of the Audit Commission Act 1998 and thereby become a body for which the Audit Commission will appoint auditors to. In addition, the Health Bill refers to GP Consortia being brought within the Audit Commission Act 1998.

- A probation trust.
- An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009.
- A combined authority established under section 103 of that Act.
- The accounts of the collection fund of the Common Council and the accounts of the City fund.
- The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995.

Appendix C

Recognised supervisory bodies and recognised qualifying bodies in England

In the companies sector, audit firms must be registered with, and subject to supervision by a recognised supervisory body and persons responsible for company audit work at a firm must hold a recognised qualification awarded by a recognised qualifying body.

There are currently five recognised supervisory bodies:

- Association of Authorised Public Accountants
- Association of Chartered Certified Accountants
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

and six recognised qualifying bodies:

- Association of Chartered Certified Accountants
- Association of International Accountants
- Chartered Institute of Public Finance and Accountancy
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

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CLG's consultation on Future of Local Public Audit

The CLG's announcement in August 2010 of a radical overhaul in the external auditing regime of councils will significantly impact on all local authorities. Therefore the CLG's consultation document entitled 'Future of Local Public Audit' dated March 2011 is very much welcomed.

As requested, the document has been considered in the context of external auditing requirements and answers to the 50 questions posed by the CLG are shown in the table below.

No.	Question	Response
1.	Have we identified the correct design principles? If not, what other principles should be considered? Do the proposals in this document meet these design principles?	<p>In general, the design principles are sound (localism, transparency, cost-reduction and high auditing standards) but we have concerns about the practicality of an independent appointment of auditors (see response below).</p> <p>It must be ensured, through the design, control, and regulation of the system of public audit, that all four principles are upheld, without favour to any other; audit quality must be maintained and not compromised due to a desire for financial savings. In particular, the staffing of local audits must be by experienced individuals..</p>
2.	Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?	Agree.
3.	Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?	The best methodology for drawing up a code of practice for local government would be through CIPFA (because of its unique position as the Accountancy body best placed to advise on the nuances of local government) in conjunction with the NAO. The NAO must have responsibility for regularity, probity, and Value For Money Requirements.
4.	Do you agree that we should replicate the system for approving and controlling statutory auditors under the	Agree.

No.	Question	Response
	Companies Act 2006 for statutory local public auditors?	
5.	Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	<p>The recognised supervisory body for local public audit should be responsible for maintaining the register; one of the key functions of the supervisory body should be the responsibility to maintain a list of members registered to carry out external public audits. This maintenance should be delegated to a single body which is more efficient than each body maintaining its own list. For the audit of local government that body should be CIPFA because of its knowledge of the sector.</p>
6.	How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?	<p>The National Audit Office should specify standards, including minimum experience of auditors, in its code of auditing standards. Further detailed guidance can be delegated to the qualifying bodies (who are responsible for regulating individual accountants) and the supervisory body (who is responsible for regulating external auditors).</p> <p>It is imperative that any firm authorised to undertake public audit has employees with a sufficient level of experience and knowledge of the local government statutory and accounting and audit framework. A new firm entering the market would not be restricted from becoming registered providing it could demonstrate that it had a sufficient number of employees with an adequate level of skills, knowledge, qualification, and experience. This should include a requirement to have a named audit principal for each audit who must meet qualification, experience and reference standards and who is personally responsible for the quality and diligence of all external auditing undertaken by them.</p>

No.	Question	Response
7.	What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?	<p>The audit firms authorised to undertake audit in local government must have demonstrated that they employ sufficient numbers of people with an adequate level of skills, knowledge, qualification, and experience; this would include skills, knowledge and experience of all specialist areas such as Housing Revenue Account and Housing Benefits, in addition to the legislative framework around the production of local authority accounts.</p> <p>External auditors should have no criminal record, no director penalties and be free of any conflict of interest.</p>
8.	What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?	All local public bodies should be categorised as public interest entities. The level and intensity of the audit could be set based upon the size of that entity on a turnover basis.
9.	There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?	<p>The regulator should undertake monitoring of these bodies. The bodies should be categorised on the size of the entity and by services provided.</p> <p>Each council with turnover of greater than £6.5m should be subject to a full annual audited, with standards and safeguards protecting the independence of such auditors. The supervisory and qualifying bodies must sanction and discipline any auditor falling short of the standards. Ultimately the NAO should have powers to penalize any supervisory or qualifying body which fails to adequately reprimand one of its members falling short of the standards.</p>
10.	What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?	The regulator should undertake independent investigation of a sample of audits to assure itself of the quality of audits.

No.	Question	Response
		<p>In addition to the duties in paragraph 2.22 of the consultation paper, the regulator (NAO) could receive appeals from stakeholders who have requested a public interest audit and been turned down.</p>
11.	<p>Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?</p>	<p>There is no need to give any comment or guidance on joint procurement. If local bodies want to procure jointly they will. The approach outlined in the document is too bureaucratically cumbersome. The typical external audit fee for a district council is £120k p.a., which should reduce considerably with the demise of inspection and greater competition. This is a small contract compared to most other council contracts. Requiring a full council decision is excessive even for a single council. If a number of councils wish to undertake a joint procurement, it would be logistically impossible to synchronize all of the separate full council decisions. A joint committee with representatives from each of the councils involved would also be difficult to organize.</p> <p>Instead, the procurement, selection and appointment processes should be no different to any other consultancy or contract. It should be possible to make a council's section 151 officer explicitly responsible for the integrity of the auditors' appointment process (which arguably they already have implicit responsibility for).</p> <p>The special quality of the external audit contract is in its independence. There therefore needs to be controls over the termination of an external audit contract rather than the procurement of one; the risk is that a council may cancel a</p>

No.	Question	Response
		contract to avoid a critical report. To safeguard against this, any early termination of a contract should be reported to the regulating body (the NAO)
12	Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?	<p>It is agreed that only appropriate people should be on the audit committee but the proposals in the paper appear to be contrary to the principle of localism.</p> <p>Audit Committees are likely to have broader and more complex roles than simply appointing external auditors – see response to Q16.</p>
13.	How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?	There does not need to be a rigid single system. An audit committee that acts independently is important, however achieving this via a committee comprising independent, financially astute citizens with relevant experience is ideal but is not necessarily practical or achievable. The model adopted should be a matter for the council to decide. The responsibility and accountability for the decision could be placed with an existing statutory officer e.g. the Monitoring Officer or s.151 officer.
14.	Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	<p>Yes – see above proposals in answer to question 13.</p> <p>Potentially councils could look to provide remuneration but this should be commensurate with the necessity for remuneration and the expected level of commitment. Councils should have discretion to determine the need for remuneration and the level of that remuneration at a local level.</p>
15.	Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which	In general, the original purpose of changing the current external audit regime is supported – to streamline processes and effect efficiencies. There is a risk here that

No.	Question	Response
	<p>of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?</p>	<p>audit committees are overly engineered with rigid rules. There is a risk of replacing one type of bureaucracy with another and driving out efficiencies from the external audit costs only to add additional costs via the set up of audit committees</p> <p>In order to gain comfort about the independence aspects, an existing statutory officer could be made responsible for overseeing the integrity of the committee.</p>
16	<p>Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?</p>	<p>Option 1 (a single mandatory role to advise the council on the engagement, removal or resignation of the external auditor) is preferable, allowing each council the discretion to extend the committee's remit according to local needs and changing circumstances.</p> <p>Many councils already have an audit committee or (corporate) similar and follow CIPFA guidance. It is likely that most councils would wish the mandatory audit committee to take on the duties from existing audit/governance/overview committee(s). However, the terms of reference of such committees already vary to reflect local needs as there is no 'one size' solution for every council. Therefore, such duties should not be mandatory or imposed on every council.</p> <p>In the unlikely situation where an audit committee has the single mandatory role for external audit and no other locally determined duties, it becomes questionable whether the committee is cost-effective. By making a statutory officer (ideally the s.151 officer) responsible for monitoring the working of the committee, that officer would be expected to</p>

No.	Question	Response
		advise their council how to improve the VfM and cost-effectiveness of the committee.
17.	Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	<p>As per 16 above - the other roles listed in the consultation document <u>are</u> appropriate and commonly are discharged already by audit/governance/overview committees.</p> <p>The role should <u>not</u> be specified in legislation but as now should be set out in guidance by CIPFA which public bodies should be required to have regard to.</p>
18.	Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?	<p>No. Councils are able to procure the full range of important and expensive services without detailed regulation. External audit should not be an exception.</p> <p>If government wants to protect the integrity and independence of external auditors, it simply needs to make a statutory officer responsible for ensuring such.</p>
19.	Is this a proportionate approach to public involvement in the selection and work of auditors	<p>No – there is no reason for such prescription and interference in what in effect is just another procurement of services. There is no tangible benefit in involving the public in the appointment of external auditors. The public is unlikely to be interested in the routine appointments, is inexperienced in such procurements and is unlikely to add value.</p> <p>In each council there are many more 'public interest' and higher value contracts for goods and services likely to be of interest to the local community - which do not require public involvement. Again, there is no reason to make external audit a unique exception.</p>

No.	Question	Response
		To involve the public would require great effort and expense to engage an adequate number of residents, who would then need to be sufficiently trained and motivated to provide informed judgments. This would delay the process and add additional cost, further eroding any efficiency gains.
20.	How can this process be adapted for bodies without elected members?	<p>The public sector is diverse. Rather than trying to impose a 'one size' solution, each sector and type of organization should be considered and a solution found based on its particular current constitution and governance structure.</p> <p>(E.g. for the police, the Police & Crime Panel would seem to be a suitable vehicle)</p>
21.	Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?	<p>There is a simple, cheap solution already in place – namely the council's existing statutory officers, such as the section 151 officer. It could be made one of their statutory duties to ensure the external auditor is appointed and if a council fails to appoint then the section 151 officer could have powers to appoint in default.</p> <p>As an added failsafe the government could give the secretary of state the power to appoint if the council fails to do so - but this power would be unnecessary if the statutory officer is held accountable.</p>
22.	Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	Appointment will be normal practice. There is no need for any body to be informed about appointment; this is unnecessary inefficient bureaucracy and cost.
23.	If notification of auditor appointment is required, which body should be notified of the auditor	This should not be required. If any requirement is placed on a body, it should be the responsibility of the NAO to

No.	Question	Response
	appointment/failure to appoint an auditor?	report this to the Secretary of State.
24.	Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	<p>All that is required is a requirement that the audited body puts in place procedures conforming to best practice on ensuring independence and rotation of audit team members. A limit of appointment should not be necessary if a proper procurement exercise has been undertaken.</p> <p>The integrity and independence of the external auditor should be maintained without compromise – especially if a statutory officer is personally ensuring such - and from a procurement perspective it might be more cost-effective to provide more flexibility without such rigid rules.</p>
25	Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?	Yes
26.	Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?	<p>As 24</p> <p>In addition, the requirement for full council to re-appoint the external auditor annually on the advice of the audit committee is unnecessary. To secure best value and provide certainty to the audit firm, the contract needs to be for a predefined contract period (say 5 years). An annual opt-out will introduce significant risk to the audit firm which will be reflected in much higher fees. The process would also be much more onerous for the council to manage. There are sufficient safeguards over the removal of an auditor, so the annual re-appointment is unnecessary.</p>
27.	Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or	This provides sufficient safeguards.

No.	Question	Response
	resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?	
28.	Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?	Yes. Risks need to be properly managed, which does not necessarily mean that external auditors should be expected to face unlimited liability (as that will be reflected in risk premiums and much higher audit fees, which fails one of the principles for change.) Instead, the regime should allow flexibility so that different councils with different risk appetites can choose to limit auditor liability or prevent limited liability accordingly.
29.	Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?	<p>Local government is diverse, from small district and unitary authorities to large county and metropolitan councils. Their needs vary as does their communities' desire for more transparent accountability. The greater the transparency and breadth of external audit inspection, the greater the cost. Councils should be free to decide on the level of audit according to their local appetite and affordability.</p> <p>The preferred option is option 1 – the lightest audit regime, with councils free to supplement that with other inspection services according to their locally determined need. This will maximize efficiency whilst allowing additional work to be undertaken where there is local need or appetite for more in-depth audits.</p>
30.	Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	No. This should be left to individual councils to determine. Councils have been through periods of publishing annual reports and best value performance reports and these received little attention. Budget plans are already published and outturn reports and Statement of Accounts

No.	Question	Response
		are also published. Councils also publish many other plans and strategies for scrutiny. An additional requirement to publish an annual report is unnecessary for all councils and should be left to local discretion and need.
31.	Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?	It could be on an individual, discretionary basis. This will not be appropriate for all councils. Section 151 officers are required to report to full council on the robustness of estimates and reserves and the auditors' reports and internal audit annual reports will take financial resilience into account. There is no need to require an annual report.
32.	Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	As per the answer to Questions 30 and 31, annual reports should not be mandatory.
33.	What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	As per the answer to Questions 30 and 31, annual reports should not be mandatory. CIPFA could provide guidance for councils which choose to produce Annual Reports.
34.	Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?	Yes. But if an additional safeguard is required, it would be simple to add to the section 151 officer's responsibilities.
35.	Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?	Yes, with the client council having the discretion to buy in extra services or use internal resources as they see fit.
36.	Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	As stated in the answers to some of the other questions, there is too much rigidity and bureaucracy in the proposals. Independence could be ensured in a more simplified manner as set out in the other answers.
37.	Do you agree that it would be sensible for the auditor	Yes

No.	Question	Response
	and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?	
38.	Do you agree that we should modernise the right to object to the accounts? If not, why?	There are a number of avenues where the electorate can now raise objections, so removal of the right to object seems reasonable.
39.	Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?	As per the answer to question 38.
40.	Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?	No. The public can apply to the public body under to FOI. There is no need for extend this to the auditor.
41.	What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?	As per the answer to Question 40, it is not appropriate to extend FOI. FOI is an additional burden to local authorities already. If any such extension was enacted, there would be impacts on audit fees if an auditor receives numerous and/or complex FOI requests which cause them to spend considerable auditor time on them.
42.	Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	Option 1 is most proportionate approach, however the district council (in two tier areas) are more appropriate for a more localized and appropriate approach and because there will already be a relationship with the district as the billing authority.
43.	Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What	This should not be prescribed by government. Small bodies and their representative bodies, for example National Association of Local Councils should be free to explore and develop commissioning arrangements as they see fit. It will suit some areas and not others. District

No.	Question	Response
	additional costs could this mean for county or unitary authorities?	Councils may be more appropriate to make arrangements. So councils should have the power (not the duty) to commission examiners. In such cases the responsibility should rest with the section 151 officer. There would then be little extra cost.
44.	<p>What guidance would be required to enable county/unitary authorities to:</p> <p>a.) Appoint independent examiners for the smaller bodies in their areas?</p> <p>b.) Outline the annual return requirements for independent examiners?</p> <p>Who should produce and maintain this guidance?</p>	No guidance would be needed. The section 151 officer would ensure that sound and proper practices are employed.
45.	Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	Yes, but this would be unnecessary as option 1 is adequate and proportional.
46.	Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?	Other options are unnecessary.
47.	Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?	The 4 level approach is adequate and transparent.
48.	Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council	This does provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies.

No.	Question	Response
	is not the precepting authority?	
49.	Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?	Yes. However in two tier areas district councils have the greater relationship with parishes. Parish councils precept on the district councils, therefore district councils rather than county councils would be the most appropriate body.
50.	Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?	This does provide a proportionate but appropriate system of regulation for smaller bodies.



AUDIT COMMITTEE REPORT

Report Title	Internal audit progress report
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	27 June 2011
Policy Document:	NO
Directorate:	Finance and Support
Accountable Cabinet Member:	Councillor Alan Bottwood

1. Purpose

- 1.1 To provide the Audit Committee with a report summarising progress made against the approved internal audit plan for 2011/12 and provide the draft annual audit report for 2010/11.

2. Recommendations

- 2.1 Receive the report; and
- 2.2 Consider the draft annual audit report for 2010/11.

3. Issues and Choices

3.1 Report Background

3.1.1 Introduction

The report is produced to inform the Committee on internal audit activity in the current year up to the date of the Committee meeting.

3.1.2 2010/11 Teamcentral Report

We have included a report in Appendix 1 detailing progress against recommendations raised within our 2010/11 audit work.

3.1.3 2011/12 Plan Outturn

We have undertaken work in accordance with the 2011/12 Internal Audit Plan which was presented to Audit Committee at its meeting in March 2011.

We have bought forward our review of Procurement from quarter 2 (July-September) to quarter 1 (April – June) to replace two smaller reviews which will now be conducted later in the year. These reviews are:

- Treasury Management – Postponed to quarter 2 as the finance team are very busy with year end
- Community Asset Transfers – Postponed as the scheme is in the early stages and audit work would be more worthwhile later in the year.

We have completed fieldwork for the following reviews and will issue draft reports shortly:

- Procurement
- Void management.

We are currently conducting a review of Recruitment and we are liaising with the Director of Environment and Culture in order to arrange our contract review of Environmental Services.

3.1.4 Internal Audit Draft Annual Report

Included in Appendix 2 is the 2010/11 draft annual audit report. This is presented for consideration by the Audit Committee.

3.2 Issues

3.2.1 As detailed in the report

3.3 Choices (Options)

3.3.1 N/a

4. Implications (including financial implications)

4.1 Policy

4.1.1 No implications other than enabling monitoring of internal audit reporting performance.

4.2 Resources and Risk

4.2.1 Risks may be highlighted as a result of audit issues being reported.

4.3 Legal

4.3.1 N/a

4.4 Equality

4.4.1 N/a

4.5 Consultees (Internal and External)

4.5.1 Director of Finance and Support and Head of Finance.

4.6 Other Implications

4.6.1 N/a

5. Background Papers

5.1 Appendices to the report

- Appendix 1 – TeamCentral report summary
- Appendix 2 – Draft Internal Audit Risk Assessment and Plan 2011/12

Other individual internal audit reports are available if required.

Chris Dickens
Senior Manager
PricewaterhouseCoopers LLP
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Appendix One

TEAMCENTRAL 10th June 2011

Year	Number of recommendations made	Implemented / Closed	Outstanding
2009/10	151	151	0
2010/11	113	95	18 – (0 overdue)

The table above shows the position as at the 10th June 2011.

Note:

- Only finalised reports are being tracked through TeamCentral
- All recommendations for 2009/10 have been marked as implemented on TeamCentral
- The 2010/11 recommendations are detailed in the table below:

2010/11 Recommendation Status

Review and number of recommendations still pending as at 10 June 2011	Responsible HoS	Total Outstanding	Outstanding & overdue	Outstanding but not yet due	Total Implemented
Project : 10_11 NBC 04 -NNDR (3)	Robin Bates	1	0	1	2
Project : 10_11 NBC 08 - Creditors (IBS) (15)	Christine Ansell	3	0	3	12
Project : 10_11 NBC 11 -General Ledger (9)	Bill Lewis	4	0	4	5
Project : 10_11 NBC 12 -Temporary Accommodation Follow Up (3)	Fran Rogers	3	0	3	0
Project : 10_11 NBC 13 -Home Renovation and DFG Follow Up (2)	Fran Rogers	2	0	2	0
Project : 10_11 NBC 14 -Debtors (11)	Bill Lewis	3	0	3	8
Project : 10_11 NBC 16 -Risk Management and Business Continuity (8)	Bill Lewis	1	0	1	7
Project : 10_11 NBC 17 - Creditors Agresso (6)	Bill Lewis	1	0	1	5

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June 2011

Northampton Borough Council

Internal Audit Annual Report

Draft

Distribution List
Audit Committee
Management Board



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Background and scope

Background to this report

The Government Internal Audit Standards (“GIAS”) and the Code of Practice for Internal Audit in Local Government in the UK 2006 require the Head of Internal Audit to provide a written report to those charged with governance timed to inform the organisation’s Annual Governance Statement (AGS). The purpose of this report is to present our annual opinion of the adequacy and effectiveness of the Council’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit was agreed with the Audit and Governance Committee (A&G) and presented in our annual internal audit plan. Our opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

This report covers the period from 1 April 2010 to 31 March 2011.

Acknowledgements

We would like to take this opportunity to thank all NBC staff for their assistance during the year.

Our annual opinion

Introduction

Under the terms of our engagement we are required to provide those charged with governance with an opinion on the overall **adequacy and effectiveness** of the Authority's:

- risk management;
- control; and
- governance processes.

Collectively we refer to all of these activities in this report as “**the system of internal control**”.

Our opinion is based on the audit work performed as set out in our 2010/11 internal audit plan agreed by Audit Committee in March 2010. Our opinion is subject to the inherent limitations set out in the Limitations and Responsibilities section of this report.

Annual opinion on internal controls

It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

We have completed the program of internal audit work for the year ended 31 March 2011 subject to management responses being finalised and agreed for the following draft reports:

- Debt Recovery (issued February 2011)
- Human Resources (issued April 2011)
- Carbon reduction commitment (issued March 2011)
- Budgetary Control (issued May 2011)

We are liaising with management to finalise these reports.

The next section shows the results from each audit, including those in draft. On the basis of audit work carried out, we have concluded that the established procedures are adequate to meet management's control objectives for the majority of systems reviewed in year. We have noted excellent progress in some areas, including:

- Bank Reconciliations- The Authority has successfully made significant changes to this process over the last two years and we can now conclude that bank reconciliations are well controlled.
- Fixed Assets, Housing Benefits and IT Backup and Recovery – We were able to provide high assurance opinions for all three of these areas.
- General Ledger and Cash Collection – We identified an overall improvement in control for both these audits.

In 2009/10 we provided a ‘No assurance’ opinion for three audits and this resulted in our limited assurance opinion on the system of internal control.

In 2010/11 however, no internal audit reports were issued with a no assurance opinion which indicates improving levels of control at the Authority. We have, however, provided ‘Limited’ assurance opinions for Expenses, IBS Creditors and Debt Recovery. The Authority has further work to do in these areas to address the control weaknesses identified. High risk issues related to these areas are specified within ‘Summary of Key Findings’ on page 7.

Therefore, on the basis of our conclusions we are able to give **moderate** assurance on the design, adequacy and effectiveness of the system of internal control at the Council. We are pleased to note and acknowledge this significant improvement on our prior year assessment and recognise the improved control framework that is now in place. We provide ‘moderate’ assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and the number of medium rated risks is significant in aggregate. The level of our assurance is therefore moderated by these risks.

We have also provided support to the Council through our reviews of contract management and museums and we provided advice to help improve controls and processes.

Internal audit work conducted

Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, GIAS, the Code of Practice for Internal Audit in Local Government in the UK 2006 and the agreed Annual Internal Audit plan.

The results of individual audit assignments (and summary of key findings)

We set out below the results of our work in terms of the number and relative priority of findings. A number of reports are in draft stage and are awaiting management responses. These have been highlighted (*) for reference.

Audit	Date of Fieldwork	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Assurance Reports						
Cash Collection	September 2010	MODERATE (IMPROVING)	0	0	2	6
General ledger	November 2010	MODERATE (IMPROVING)	0	0	3	6
Creditor Payments - Agresso	November 2010	MODERATE	0	0	1	5
Creditor Payments - IBS	October 2010	LIMITED	0	2	10	3
Payroll	January 2011	MODERATE	0	0	4	4
Budgetary Control	March 2011	MODERATE*	0	0	3	2
Bank Reconciliations	November 2010	HIGH	0	0	0	2
Housing Benefits	February 2011	HIGH	0	0	0	1
Fixed Assets	February 2011	HIGH	0	0	0	2
Housing Rents	December 2010	MODERATE	0	0	3	4
Expenses	September 2011	LIMITED	0	1	5	1
Licensing	August 2010	MODERATE	0	0	4	1
Debt Recovery	January 2011	LIMITED*	0	2	6	3

Carbon Reduction Commitment	January 2011	MODERATE*	0	0	1	2
Human Resources	January 2011	MODERATE*	0	0	2	3
Voluntary Grants	June 2010	MODERATE	0	0	2	3
Insurance	January 2011	MODERATE	0	0	3	2
Planning applications	November 2010	MODERATE	0	0	3	5
IT Backup and Recovery Controls	February 2011	HIGH	0	0	0	2
Risk Management and Business Continuity Arrangements	December 2010	MODERATE	0	0	5	3
Project Governance	February 2011	HIGH	0	0	0	3

Summary of key findings

We set out below a summary of the key findings (those rated as high risk in the audit report). In addition we have outlined the rating of these issues in prior year to indicate whether issues have been implemented since our last Annual Report:

Audit review

High risk issue

IBS creditors

There was no review or authorisation of new suppliers on the IBS system, increasing the risk of false suppliers being created

The following value for money issues were identified:

- 4 significant contracts between the Authority and their suppliers had expired.
- There was no preferred supplier listing in place.
- The Authority did not use any purchasing consortium.

Debt recovery

A high number of control issues around delays within the debt recovery process were identified, increasing the likelihood that debts won't be collected

Expenses

The Authorised Signatory List was out of date and poorly organised. Signatures authorising expenses claims could not be checked properly.

Results of follow-up work

We performed follow up work on the following areas:

- Temporary Accommodation
- Home Renovation and Disables Facilities Grant

- Council Tax
- National Non-Domestics Rates

We have also conducted follow-up work throughout the year as part of our assignment reviews. Progress on follow up of audit recommendations is being reported on a regular basis to Audit Committee. We are pleased to note the high number of recommendations that have been implemented in year.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Northampton Borough Council is as at 31 March 2011. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and of internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Accounts Audit and Risk Committee. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Limitations in our scope

The scope of our work has been limited to those areas identified in our individual Terms of Reference.

Access to this report and responsibility to third parties





This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix A Annual assurance levels and risk ratings

Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
 Medium	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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AUDIT COMMITTEE REPORT

Report Title	External Audit Update
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AGENDA STATUS: PUBLIC

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

1. Purpose

- 1.1 To present the External Audit Opinion Plan for the 2010/11 financial year and to give Audit Committee opportunity to discuss the opinion plan with the Council's external auditor.
- 1.2 To present the External Audit fee letter

2. Recommendations

- 2.1 To consider and discuss the External Audit Opinion Plan (Appendix 1).
- 2.2 To note the External Audit fees.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Council's external auditors, the Audit Commission, have provided the Council with the External Audit Opinion Plan for the 2010/11 financial year. It is good practice to report this to the Audit Committee and to allow the committee opportunity to discuss the plan with the external auditor and enable the external to be questioned about the plan.
- 3.1.2 The Council received a letter from the Audit Commission dated 15th April 2011 (Appendix 2) setting out the proposed fees for 2011/12. Following a meeting with the auditors and the Chief Executive and the Director of Finance and Support, the Audit Commission revised the proposed fees and sent a subsequent letter dated 2nd June 2011 (Appendix 3).

3.2 Issues

- 3.2.1 The Audit Commission have recently provided the Council with the External Audit Opinion Plan for 2010/11.
- 3.2.2 The plan summarises the Audit Commission's approach to undertaking the annual audit for the 2010/11 financial year.
- 3.2.3 The Audit Commission have reduced the amount they are charging the Council for the "Audit Fee" element of the fees from £194,275 to £178,000, predominantly because of increased reliance that the Auditors can place on the quality of the Statement of Accounts and the supporting working papers.

3.3 Choices (Options)

- 3.3.1 To comment on the External Audit Opinion Plan for 2010/11 and to question the Council's external auditors on any matters arising.
- 3.3.2 To comment on the Audit Commission fees and question the Council's external auditors on these.

4. Implications (including financial implications)

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 Chief Executive, the Director of Finance and Support, and the Head of Finance have been given opportunity to comment and feedback on the attached plan

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

- Appendix 1 – External Audit Opinion Plan for 2010/11
- Appendix 2 – Audit Commission letter of 15th April 2011
- Appendix 3 – Audit Commission letter of 2nd June 2011

Bill Lewis
Head of Finance, ext 7167

Audit opinion plan

Northampton Borough Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

This plan sets out the audit work that we propose to undertake for the audit of your financial statements and the value for money conclusion 2010/11.

1 The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:

- audit work specified by the Audit Commission for 2010/11;
- current national risks relevant to your local circumstances; and
- your local risks.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.

2 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and we undertake our audit work to meet these responsibilities.

3 We comply with the statutory requirements governing our audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

Fee for the audit

The fee for the audit is £204,500, as indicated in our letter of 28 April 2010.

4 The Audit Commission scale fee for Northampton Borough Council is £194,750. The fee proposed for 2010/11 is 5 per cent above the scale fee and is within the normal level of variation specified by the Commission. The letter also indicated the Audit Commission had given a 'one off' subsidy of £9,455 against the 2010/11 fees.

5 In setting the fee, we assumed that:

- the level of risk in relation to the audit of accounts is consistent with that for 2009/10 and no significant difficulties would arise in the course of our work;
- good quality, accurate working papers are available at the start of the financial statements audit;
- the Council will supply good quality working papers to support the restatement of 2009/10 balances to comply with International Financial Reporting Standards (IFRS); and
- Internal Audit undertakes appropriate work on all material systems and this is available for our review from February 2011.

6 Where these assumptions are not met, we may be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this first with the Head of Finance and issue supplements to the plan to record any revisions to the risk and the impact on the fee.

7 Further information on the basis for the fee is set out in appendix 1.

Specific actions the Council could take to minimise its audit fees

8 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to minimise its audit fees. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

9 We have provided free training for finance staff focusing on key accounting and audit issues for the 2010/11 financial statements. We are also proposing to work in collaboration with the Council to minimise audit testing of the Housing & Council Tax Benefit (HCTB) claim and have arranged a local training workshop to ensure officers are aware of the necessary testing and evidence requirements.

Auditors report on the financial statements

We will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).

10 We are required to issue an audit report giving an opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2011.

Materiality

11 We will apply the concept of materiality in both planning and performing the audit, in evaluating the effect of any identified misstatements, and in forming an opinion.

Identifying opinion audit risks

12 We need to maintain a full understanding of the Council to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:

- identifying the business risks facing the Council including assessing your own risk management arrangements;
- considering the financial performance of the Council;
- assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Council information systems.

Identification of specific risks

We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1: **Specific risks**

Specific opinion risks identified

Risk area	Audit response
Re-statement of the 2008/09 and 2009/10 audited accounts into IFRS format.	We are undertaking early work to review the Council's overall arrangements for re-statement of previous year's balances into IFRS format. This includes reviewing and testing the conversion process and adoption of appropriate accounting policies. Our work has focused on key risks and areas of major change such as: <ul style="list-style-type: none">■ leases;■ employee benefits; and■ government grants.
Preparation of the 2010/11 accounts in IFRS format.	We will review and test the format and content of the primary statements, including accounting policies and disclosure notes, using the latest available technical guidance. We plan to rely on a mixture of controls testing (key financial systems) and detailed testing of the material balances in the financial statements.
Implementation of Single Status pay and grading structure and settlement of equal pay claims.	We will review the council's accounting treatment particularly in respect of any back-pay or pending equal pay claims.

Risk area	Audit response
<p>We reported a number of issues arising from our 2009/10 audit, including:</p> <ul style="list-style-type: none"> ■ scope to provide additional details in the Annual Governance Statement in respect of weaknesses in internal controls and management actions; ■ a need to review the basis for calculation of the bad provision in respect of housing rents; ■ scope to improve the explanatory foreword; ■ large amounts of unallocated cash at the year-end; ■ ensuring depreciation calculations take account of the residual value of assets; ■ non-retention of working papers to support the creditors control account reconciliation; and ■ material errors in the statement of movements on GF balance, cash-flow statement, and classification of assets. 	<p>We will review and test the Council's response to these and other issues arising from our 2009/10 audit.</p>

Value for money (VFM) risks

13 Our risk assessment for the VFM conclusion is in progress. Any emerging risks will be reported later in the year.

Testing strategy

On the basis of the risks identified above we will produce a testing strategy that will consist of testing key controls and substantive tests of transaction streams and material account balances at year end.

14 We can carry out the testing both before and after the draft financial statements have been produced (pre and post-statement testing).

15 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.

- Review of accounting policies.
- IFRS restatement of opening balances.

16 Where we identify other possible early testing, we will discuss it with officers.

17 Wherever possible, we will seek to rely on the work of Internal Audit to help meet our responsibilities. For 2010/11, we expect to be able to use the results of Internal Audit's work on all key financial systems that produce material figures in the financial statements.

18 We will also seek to rely on the work of other auditors and experts, as appropriate, to meet our responsibilities. For 2010/11 we plan to rely on the work of KPMG as auditors of the Northamptonshire pension fund. We will also seek to place reliance on the Council's actuary and valuer. The Audit Commission has engaged Gerald Eve and PwC to provide its auditors with information to help assess the reasonableness of property valuations and actuarial assumptions.

Value for money conclusion

We are required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

19 This is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

20 Where appropriate we will plan a programme of VFM audit work based on our risk assessment.

Key milestones and deadlines

The Council is required to prepare the financial statements by 30 June 2011. We are required to complete the audit and issue the opinion and value for money conclusion by 30 September 2011.

21 The key stages in producing and auditing the financial statements are in table 2.

22 We have already agreed with officers a schedule of working papers required to support the entries in the financial statements. The agreed fee is dependent on the timely receipt of accurate working papers.

23 The audit team will meet with the key contact regularly during the audit to review overall progress, matters arising and status of any outstanding queries.

Table 2: **Proposed timetable**

Activity	Date
Testing of controls and early substantive testing	February to April 2011
Receipt of accounts	June 2011
Sending audit working papers to the auditor	June 2011
Start of detailed testing	18 July 2011
Progress meetings	Weekly
Present report to those charged with governance at the audit committee	September 2011
Issue opinion and value for money conclusion	By 30 September 2011

The audit team

Table 3 shows the key members of the audit team for the 2010/11 audit.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Neil Bellamy District Auditor	n-bellamy@audit-commission.gov.uk 0844 798 4057	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Trevor Croote Audit Manager	t-croote@audit-commission.gov.uk 0844 798 4064	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director Resources.

Independence and objectivity

24 We are aware of one potential conflict of interest for a member of the audit team, as reported to you and discussed with officers in previous years. Safeguards have been put in place to ensure that this does not result in a significant threat to the independence and objectivity of our audit.

25 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in appendix 2.

Meetings

26 The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in appendix 3.

Quality of service

27 We aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through the local team please contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

28 If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Planned outputs

29 We will discuss and agree reports with the right officers before issuing them to the Audit Committee.

Table 4: **Planned outputs**

Planned output	Indicative date
Annual governance report	September 2011
Auditor's report giving an opinion on the financial statements	September 2011
Final accounts memorandum (if required)	November 2011
Annual audit letter	November 2011

Appendix 1 Basis for fee

The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.

The risk assessment process starts with the identification of the significant financial and operational risks applying to the Council with reference to the following.

- Our cumulative knowledge of the Council:
 - planning guidance issued by the Audit Commission; and
 - the specific results of previous and ongoing audit work.
- Interviews with Council officers.
- Liaison with Internal Audit.

Assumptions

In setting the fee, we have assumed the following.

- The Council will have fully implemented the recommendations contained in our annual governance report of 2009/10.
- You will inform us of significant developments impacting on the audit.
- Internal audit meets the appropriate professional standards.
- Internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit.
- You provide:
 - good quality working papers and records to support the financial statements by 30 June 2011;
 - information asked for within agreed timescales (as set out in the joint working protocol); and
 - prompt responses to draft reports.
- There is no allowance for extra work needed to address questions or objections raised by local government electors.

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 Independence and objectivity

Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.

International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.

The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be

justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.

- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional safeguards in the last two years.
- The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.

The District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 3 Working together

Meetings

The audit team will ensure we have knowledge of your issues to inform our risk-based audit through regular liaison with key officers.

Our proposal for the meetings is as follows.

Table 5: **Proposed meetings with officers**

Council officers	Audit Commission staff	Timing	Purpose
Chief Executive and Director of Finance & Support	District Auditor (DA) and Audit Manager (AM)	As required.	General update plus: <ul style="list-style-type: none"> ■ April - audit plan; and ■ December - annual audit letter.
Head of Finance	AM and/or Team Leader (TL)	Quarterly for routine liaison meetings and weekly during the final accounts audit.	Update on audit issues and progress.
Internal Audit Manager	AM and/or TL	Quarterly.	Update on progress and discussion of annual plans January/February.
Audit Committee	DA and/or AM	As determined by the Committee	Presentation of audit reports such as the annual audit plan, annual governance report and annual audit letter.

Sustainability

The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:

- reducing paper flow by encouraging you to submit documentation and working papers electronically;
- use of video and telephone conferencing for meetings as appropriate; and
- reducing travel.

Appendix 4 Glossary

Annual audit letter

Report issued by the auditor to an audited body that summarises the audit work carried out in the period, auditors' opinions or conclusions (where appropriate) and significant issues arising from auditors' work.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by auditors in accordance with the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor, comprising both the members of the body and its management (the senior officers of the body). Those charged with governance are the members of the audited body. (See also 'Members' and 'Those charged with governance'.)

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and other guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB, which contain basic principles and essential procedures with which auditors are required to comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Directors

Members of the board who are collectively and individually responsible for the overall direction and control of the audited body. In NHS bodies there is a unitary board, consisting of executive members and part-time non-executive members, chaired by a non-executive member. The chief executive is responsible to the board for the day-to-day management of the organisation but, as accountable officer, is also responsible to the Department of Health for the proper stewardship of public money and assets. (See also 'Those charged with governance' and 'Audited body').

Ethical Standards

Pronouncements of the APB that contain basic principles that apply to the conduct of audits and with which auditors are required to comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts or accounting statements that audited bodies are required to prepare, which summarise the accounts of the audited body, in accordance with regulations and proper practices in relation to accounts.

Internal control

The whole system of controls, financial and otherwise, that is established in order to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality (and significance)

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only in relation to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, in addition to their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

The concept of 'significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Members

The elected, or appointed, members of local government bodies who are responsible for the overall direction and control of the audited body. (See also 'Those charged with governance' and 'Audited body'.)

Regularity (of expenditure and income)

Whether, subject to the concept of materiality, the expenditure and income of the audited body have been applied for the purposes intended by parliament, and whether they conform with the authorities that govern them.

Annual Governance Statement

Local government bodies are required to publish an Annual Governance Statement (AGS) with their financial statements. The disclosures in the AGS are supported and evidenced by the body's assurance framework. The Annual Governance Statement is prepared in accordance with guidance issued by CIPFA.

Those charged with governance

Those charged with governance are defined in auditing standards as 'those persons entrusted with the supervision, control and direction of an entity'. In local government bodies, those charged with governance, for the purpose of complying with auditing standards, are the full council, audit committee (where established) or any other committee with delegated responsibility for approval of the financial statements;

Audit committees are not mandatory for local government bodies, other than police authorities and local probation trusts. Other bodies are expected to put in place proper arrangements to allow those charged with governance to discuss audit matters with both internal and external auditors. Auditors should satisfy themselves that these matters, and auditors' reports, are considered at the level within the audited body that they consider most appropriate.

Whole of Government Accounts

The Whole of Government Accounts initiative is to produce a set of consolidated financial accounts for the entire UK public sector on commercial accounting principles. Local government bodies, other than probation boards and trusts, are required to submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, their statutory accounts.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

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Our reference CO004012

15 April 2011

David Kennedy
Chief Executive
Northampton Borough Council
The Guildhall
St. Giles Square
Northampton
NN1 1DE

Direct line 0844 798 4057
Email n-bellamy@audit-
commission.gov.uk

Dear David

Audit Fee 2011-12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Northampton Borough Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money (VFM) conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Northampton Borough Council is £194,275. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£194,275	£204,500
Certification of claims and returns (estimate)	£34,000	£34,000

I will issue a separate audit plan in April 2012. This will detail the risks identified to both the financial statements audit and the VFM conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Finance and Support. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

The estimated fee for the certification of claims and returns is based on the Council undertaking all of the initial testing of the Housing and Council Tax Benefits Claim.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

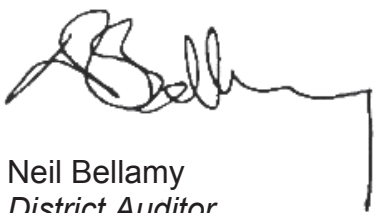
- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Neil Bellamy District Auditor	n-bellamy@audit-commission.gov.uk 0844 798 4057	Neil is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of the Audit Committee and issuing the auditor's report.
Trevor Croote Audit Manager	t-croote@audit-commission.gov.uk 0844 798 4064	Trevor manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Alastair Ambrose Team Leader	a-ambrose@audit-commission.gov.uk 0844 798 4094	Alastair has experience of auditing the financial statements of district councils. He will lead the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely



Neil Bellamy
District Auditor

cc Isabell Procter, Director of Finance & Support
Bill Lewis, Head of Finance

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the audit committee.

Table 1

Planned output	Indicative date
Audit plan	April 2012
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2012
Final accounts memorandum (if required)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013

Our reference Central/WE00312

2 June 2011

David Kennedy
Chief Executive
Northampton Borough Council
The Guildhall
St Giles Square
Northampton
NN1 1DE

Direct line 0844 798 4057
Email n-bellamy@audit-
commission.gov.uk

Dear David

Audit Fee 2011/12

I am writing following our meeting on 27th April at which we discussed the proposed 2011/12 audit fee.

I have considered further the issues raised and in particular the emerging findings from our 2010/11 audit and can confirm that a fee below the Audit Commission's published scale fee is appropriate. I can confirm a proposed fee of £178,000 and also that I will review the fee and the associated audit work programme further once my audit of the 2010/11 financial statements is completed in September.

The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- The audit of financial statements
- Value for money (VFM) conclusion
- Whole of Government accounts.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

Audit fee

The Audit Commission proposes to set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and

- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Northampton Borough Council is £194,275. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below. Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those identified and reflected in the 2010/11 fee. As mentioned above a lower fee is proposed for Northampton Borough Council to reflect the emerging findings from the 2010/11 audit.

Audit area	Proposed fee 2011/12	Scale fee 2011/12	Planned fee 2010/11	Actual Fee 2009/10
Audit fee	£178,000	£194,275	£204,500	£231,000
Certification of claims and returns (estimate)	£34,000	£34,000	£34,000	£41,990

I will issue a further separate audit plan in early 2012. This will detail the risks identified to both the financial statements audit and the VFM conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in overall risk and fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Finance and Support. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee.

The estimated fee for the certification of claims and returns is based on the Council undertaking all of the initial testing of the Housing and Council Tax Benefits Claim.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

Audit team

Your audit team must meet high specifications and must:

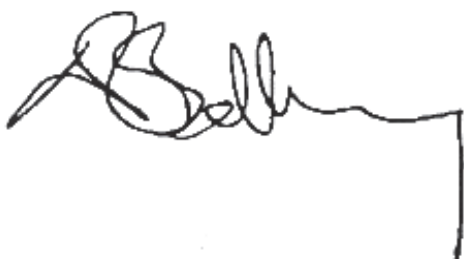
- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Neil Bellamy District Auditor	n-bellamy@audit-commission.gov.uk 0844 798 4057	Neil is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Chief Executive and Chair of the Audit Committee and issuing the auditor's report.
Trevor Croote Audit Manager	t-croote@audit-commission.gov.uk 0844 798 4064	Trevor manages and coordinates the different elements of the audit work. Key point of contact for the Head of Finance.
Alastair Ambrose Team Leader	a-ambrose@audit-commission.gov.uk 0844 798 4094	Alastair has experience of auditing the financial statements of district councils. He will lead the on-site team in delivering the audit.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely



Neil Bellamy
District Auditor

cc Isabell Proctor
Bill Lewis

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