



AGENDA ITEM: 10

AUDIT AND GOVERNANCE COMMITTEE:

23 September 2014

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

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SUBJECT: LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To provide a summary of the Local Audit and Accountability Act 2014

2.0 RECOMMENDATIONS

2.1 That the new requirements of the Act be noted.

3.0 BACKGROUND

3.1 The Local Audit and Accountability bill was published in the House of Lords on 9.5.2013 and received royal assent on 30.1.2014. This Act has a number of components, but this report deals only with the element relevant to this Committee, in relation to the abolition of the Audit Commission and establishing new arrangements for the auditing of local public bodies.

3.2 Under current arrangements it is the Audit Commission that is responsible for appointing the Council's external auditors. However under the new framework within the Act each Council will be responsible for appointing its own auditor following procurement from an open and competitive market (in accordance with OJEU procedures). This new approach is intended to deliver greater localism, decentralisation and transparency, maintain competitive audit fees and uphold high standards of auditing. Councils will be able to appoint their own auditors from 2017/18, and so this change is still some way off.

- 3.3 The government's intention is to mirror, as far as is appropriate, the arrangements for regulation of external audit in the private sector (much of which is set out in the Companies Act 2006) with additional arrangements to reflect the broader scope of the audit of local public bodies.

4.0 IMPLICATIONS FOR THE COUNCIL

- 4.1 Each Council must appoint an auditor by the end of 31st December in the financial year before the financial year which will be covered by the accounts to be audited. The appointment may last for more than one year but a new appointment must be made at least once every five years. Local bodies will be free to procure and/or appoint jointly with any number of local bodies where this allows them to reduce costs and reflects local circumstances.
- 4.2 Each Council must have an auditor panel which will be consulted and their views taken into account when selecting and appointing an auditor. The panel must consist of at least a majority of independent members and must be chaired by an independent member. Its role is to provide advice on the appointment of an auditor and advise the local body on the maintenance of an independent relationship with its auditor to ensure independence is maintained.
- 4.3 Each auditor panel must take account of any guidance the Secretary of State issues in relation to the exercise of its functions, as must the relevant authority in exercising its functions in relation to its auditor panel. The auditor panel may require a member or officer of the Council to attend a meeting of the panel to answer questions.

5.0 COMPLIANCE AND REGULATION

- 5.1 The chosen auditor must be eligible to audit the Authority's accounts with the required skills, experience and qualifications and must be independent from the body being audited. Qualification to sign an audit report will either be a qualification recognised under Part 42 of the Companies act 2006 or another qualification recognised under the act. The Secretary of State may make regulations setting out the minimum requirements that those other qualifications must meet in order to be recognised for the purposes of local audit.
- 5.2 In local authorities operating executive arrangements (i.e. Leader and Cabinet or Mayor and Cabinet) the full Council, not the executive, must appoint the auditor. The Council must publish a notice within 28 days of making the appointment that: states it has made the appointment; the term of that appointment; who the appointed auditor is; sets out the auditor panel's advice; and if that advice has not been followed, the Council's reasons for not following it.
- 5.3 Various safeguards will be in place to uphold high standards of auditing and to ensure consistency in the nature of audits across local public bodies. Requirements relating to the production of accounts and the process for appointing an independent auditor will be set out in legislation.
- 5.4 The National Audit Office will produce a code of audit practice, supported by detailed guidance, setting out how local auditors should undertake their work and

will also undertake locally focused value for money studies. These functions will be funded separately and clearly accounted for to Parliament. The Financial Reporting Council will become the overall regulator and its costs will be factored into its budgets. There will also be guidance produced by the Chartered Institute of Public Finance and Accountancy relating to the procurement of audit services.

- 5.5 If a body fails to appoint an auditor by 31st December the Secretary of State may either direct the relevant authority to appoint a named auditor or appoint an auditor on their behalf. The Secretary of State has the power to make regulations about the resignation or removal of a local auditor from office in terms of what actions are required prior and following removal.

6.0 RISK ASSESSMENT

- 6.1 Ensuring the Council has robust external auditing procedures in place is key to ensuring good corporate governance and transparency. The Council must be prepared for the new regime coming into practice in 2017/18 to ensure an effective auditor panel is in place beforehand and that all appropriate officers and members are aware of the changes in good time.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

None