

# CIPFA Better Governance Forum Briefing

16th August 2010

## **Disbanding the Audit Commission – what are the issues for Audit Committees in Local Government?**

Last week's announcement was a surprise and the details of future arrangements are not yet known in any detail. What is clear is that whatever form new arrangements take they will have an impact on local authority audit committees. Potential areas of impact are outlined below. It is worth thinking about these areas in advance to help prepare audit committee members.

### **Key aspects of the proposals for Audit Committees**

#### 1. Appointment of external auditors

The press release suggests that 'councils will be able to appoint their own independent external auditors from a more competitive and open market among audit firms'. It is proposed that the new arrangements will be in place for the 2012/13 financial year.

Appointing external auditors is a traditional responsibility of an audit committee so it is likely that this will be taken on by local authority audit committees. If external auditors are to be in place for April 2012 then the procurement and selection process is likely to start in 2011. We shall have to see if there will be an interim step of transferring existing appointments to external auditors for the duration of the agreed period or whether everyone starts from scratch.

Specific legal advice should be sought to assess future options. It may be advantageous to manage this on a regional basis, otherwise there are risks of some authorities not getting access to skilled audit teams immediately due to capacity issues, or more likely, higher fees at a time of budgets having to be reduced.

#### 2. Governance and Accountability

*'For local government these changes are part of the Government's wider focus on transparency that will bring about a revolution in town hall openness and accountability. Local people will now be the audience for assurances that their council is spending money wisely, that they are well governed, their council is financially robust, achieving value for money and providing accurate information and data.*

*These proposed changes go hand in hand with plans to create an army of armchair auditors - local people able to hold local bodies to account for the way their tax pounds are spent and what that money is delivering.'*

To achieve this goal the audit committee will need to play a key role. Already they lead on governance matters and receive assurances about financial management and value for money. Each audit committee will need to consider the adequacy of its assurance framework for achieving that goal. What does it need from its external auditor and what does it get from other sources? The audit committee needs a clear view of its assurance framework before it appoints external auditors.

It will also need to consider how effectively it communicates with the public and its role in reviewing local concerns or questions. Clearly the goals of good governance remain extremely important.

It will also be interesting to see how Government's 'armchair' auditor role will fit in with the new external audit firm model. How will citizens communicate with the private sector?

### 3. Monitoring good practice

*'The Commission's research activities would stop; ending duplication with others and strengthening the National Audit Office's role in this area.'*

The Audit Commission has been a source of good practice and comparative information which many audit committees have made use of to review the adequacy of their own arrangements. This role will now be taken up by the NAO. It is too soon to tell how this will work in practice and whether similar reports will continue to be available. Audit committees or those advising them may need to find alternative sources of information on good practice.

### 4. Counter fraud

The press release makes no mention of the National Fraud Initiative, so whether this would be picked up by the NAO or discontinued is unknown. Again results from the NFI formed part of the assurance to the audit committee about the risks of fraud the organisation faced. If changes to the form or extent of the NFI are introduced then the audit committee will need to consider the risks of fraud and corruption, the organisation's arrangements for counter fraud and its own assurance requirements, plus the expectations of the public.

### 5. Local Government Ombudsman

*'New plans to strengthen individual citizens' rights of redress should they receive poor council services by enhancing the role of the Local Government Ombudsman through making his findings legally enforceable.'*

Audit Committees will need to be aware of new developments here and to make sure that where there are any rulings from the Local Government Ombudsman that have governance implications they are aware of them.

### 6. Implications for health audit committees

A new regime is going to be proposed for the external audit and inspection of health bodies and the implications of this will be identified in due course.

The CLG press release can be accessed here  
<http://www.communities.gov.uk/news/corporate/1688109>

As more information becomes available the CIPFA Better Governance Forum will analyse it and issue further briefings.



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