

Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **21st April 2011**

Present:

Cllr. Taylor (Chairman);
Cllrs. Feacey, Koowaree, Smith, Woodford.

Apologies:

Cllrs. Ellison, Mrs Laughton, Link, Wood.

Also Present:

Deputy Chief Executive, Head of Internal Audit Partnership, Audit Partnership Manager, Senior Member Services & Scrutiny Support Officer

Mr Andy Mack – Audit Commission.

459 Election of Chairman

In the absence of the Chairman the Committee was informed that there was a need to elect a Chairman for this Meeting from the Members present.

Resolved:

That Councillor Taylor be elected as Chairman for this Meeting of the Audit Committee.

460 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 1st February 2011 be approved and confirmed as a correct record.

461 Communities & Local Government Consultation – The Future of Local Public Audit (including the role of Audit Committees)

The report explained that Communities and Local Government (CLG) was seeking responses to a consultation paper 'The Future of Local Public Audit'. The paper set out the Government's proposals to replace the public audit arrangements currently provided through the Audit Commission. Members were asked to consider the proposals set out in the consultation paper and to provide a steer for Officers to prepare a draft response to CLG. There would be further consultation with Members

in June 2011, prior to the response being finalised. A further document had been tabled for Members providing draft suggested responses to the questions in the consultation paper.

The Head of the Internal Audit Partnership explained that this was the first part of the consultation process stemming from the Government's decision to abolish the Audit Commission. Full responses were needed by the 30th June 2011, so whilst there would be time to consult with Parish Councils, Management Team and the Executive before coming back to this Committee in late June, there was a need to get discussions underway with an analysis of the pros and cons of the proposals.

Mr Mack explained that he had been asked to set the scene about the level of service the Council currently received from the Audit Commission. The Commission appointed Auditors to Local Authorities and had to comply with a National Code of Practice. The two broad things they were responsible for were offering an Opinion on: - the Council's Accounts; and the Council's Value for Money arrangements. They reported those findings to the Audit Committee in an Annual Governance Report and publicly in the Annual Audit Letter. The Commission also signed off grant claims, undertook other advisory work and dealt with queries from local electors. International Auditing Standards had brought the public and private sectors closer together which would make the sourcing of a new External Auditor easier for the Council, but there were clear differences between what the public and private sectors obtained from their audit work. The Value for Money Conclusion for example was not a requirement in the private sector, but he said it was personally something he thought should be retained because of the public money involved and the rights of Local Electors to challenge the accounts. Auditing of Parish Councils was currently done remotely with bank statements and simple income and expenditure accounts being submitted to the External Auditor. This 'limited' auditing regime was cheaper and more efficient and generally worked well.

In terms of what made a good audit, Mr Mack hoped that the Commission had been able to dispel the myth of "Scary Auditors". A good audit involved working together with Officers effectively and sharing resources. They had worked closely with the Council's Finance Team over recent years on International Financial Reporting Standards, PFI Activity and the maximisation of grant claims and working relationships were good. The Audit Commission also worked across Kent with Chief Finance Officers achieving economies of scale. The Commission had also previously produced national reports on a host of topics. It was recognised that the intensive public auditing regime of three or four years ago had been too much and a lighter touch approach was needed for the future. The Commission was being abolished, but it was important for the Council to consider the things that they did want to see continue.

With regard to the future of the Audit Commission, Mr Mack updated that they had put a proposal to the Government to retain the Commission as a staff owned mutual competing in the market with private sector companies, and they were waiting for a response.

The Committee agreed that it would consider the key issues of the consultation paper by theme rather than considering each of the consultation questions in turn. In

terms of the overall thrust of the paper and the future of local public audit, Members considered it was important that the Council was clear about what it wanted from its external audit function in the future. They did not want to lose the particular knowledge and understanding of local context that the current audit arrangements offered, along with the common working practices across Kent and that would be an important criterion for potential auditors. One of the key intentions of the paper was clearly to save money and increase competition which was understood, however there was a need to maintain the quality of audit that the Council currently had. Members agreed with the suggested response that whilst the principles of the consultation were sound, the paper arguably fell short of meeting those principles. Proposals for Audit Committees comprising a majority of non-elected Members were seen as unnecessary and a step too far and that some of the proposals for Audit Committees were inconsistent with the principle of Localism. The paper seemed to conclude that independently controlled Audit Committees were needed to maintain balance, and whilst the Council did not support this view, there would be a need to respond pro-actively and consider how it would address points about "independence". Discussion on each of the key themes of the paper is grouped together below under sub-headings: -

Regulation of Local Public Audit

The Committee agreed that the National Audit Office was the most appropriate organisation to produce an Audit Code of Practice and that the Financial Reporting Council should maintain and review the Register of Statutory Local Public Auditors. The Committee discussed the whole issue of Public Interest Entities (PIEs) and considered there needed to be a better understanding of these and the impacts for public bodies and auditors before responding.

Commissioning of Local Public Audit Services

Was the proposed system of rotation, with a competitive appointment process every five years and the requirement to appoint a different audit firm after ten years, too onerous? The Committee understood the desire for independence and relationships not becoming too close, but this did seem overly strict and there was a danger that the Council would have to rotate to an audit provider it did not want.

Proposals for new Audit Committees

It was quite surprising that there was currently no legal requirement for a Local Authority to have an Audit Committee, but the proposals within the paper would make this a statutory requirement. A possible Committee structure was set out in the paper which would have a radical impact on the way Ashford's Audit Committee was constituted and operated. It proposed a majority of Members of the Committee who were non-elected to the local public body and that Committee Chairs and Vice-Chairs would both be independent of the local public body (i.e. not elected Members). The Committee agreed it would be important to challenge this notion as there appeared to be no justification for it and it showed a lack of appreciation for what the Committee did. Members had already agreed the principle of potentially co-opting Independent Members to the Committee, but it was considered that the principle of Localism should permit Local Authorities to determine the level on non-

elected representatives for their Audit Committees as well as whether the Chair or Vice-Chair should be a non-elected or elected Member, so they could not support the options listed in the paper. It was important for the Committee to be publicly accountable by way of elected representatives and for a Chairman have knowledge of Council decisions. Audit Committees should be viewed very differently to Standards Committees. It was considered that one or two Independent Members could be a useful supplement to the Committee, but only as co-opted non-voting Members. In terms of the Committee's role, Members favoured the narrower mandatory duty with the Council having discretion to decide what other functions or duties to allocate to the Committee.

Scope of External Audit and the Work of External Auditors

The paper explained that public sector bodies were subject to audit with a wider scope than in the private sector, including, for example, value for money and legality issues. It presented four possible options for the scope of the external audit of Councils and the Committee expressed a preference for Option 2 in the paper. The more narrow remit outlined in Option 1 might well offer a cheaper alternative, but it was likely that the work would not be of the same quality and would lead to things having to be picked up elsewhere (perhaps by Internal Audit). The Committee would also like to see the Value for Money assessment retained which was part of Option 2 but not Option 1. There was not general support for the requirement for the Council to prepare and publish an Annual Report to be reviewed by the Auditor, as outlined in Option 4. However there was a recognition that the Council had to consider transparency and how it may provide assurance to residents about value for money and the strength of its governance arrangements.

Arrangements for Smaller Bodies (e.g. Parish Councils)

The implication of the paper seemed to be that a responsibility would be placed on the County Council to monitor the appointments of Independent Examiners to Parish Councils and other relevant smaller bodies (with a turnover of less than £6.5m). The consultation paper made no reference to a possible role here for District Councils, but it was considered that this may be too onerous for the County Council and they may be too far removed from the day-to-day issues of Parish Councils. Therefore it would be more logical for the District Councils to play this role. It would also sit more comfortably with the principles of Localism.

In terms of responding to the consultation, the Committee considered that each of the four Authorities in the Mid Kent Audit Partnership should respond separately, as a joint response may dilute the points being made. However, if there was an opportunity to review the four responses to ensure consistency where possible, that would be welcomed.

The Chairman reported that the Leader of the Council was supportive of the points made in the Officer's covering document and suggested responses.

The Deputy Chief Executive said he would produce a track changed version of the suggested response document incorporating the comments made at this Meeting for Members of the Committee and a second draft response would be considered by the

Committee at its June Meeting following wider consultation and before the final response was sent off.

Resolved:

That subject to the comments made at the Meeting, the comments made in the suggested response document form the basis of the Council's draft response to the Future of Local Public Audit consultation, and a further draft response be considered by the Committee at its 21st June 2011 Meeting.

Queries concerning these Minutes? Please contact Danny Sheppard:
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