CIPFA The Chartered Institute of Public Finance & Accountancy

meeting the needs of local government: procuring external audit

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The Future of Local Government Audit
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Session overview

- AC Audit Practice outsourcing
- Structure and roles of audit committees
- Procuring and selecting an external auditor

Current position

- Audit Commission as regulator, commissioner and provider of local audit services:
  - Publishes statutory code of audit.
  - Appoints auditors to local public bodies.
  - Main provider of audits – 70% of local public audits undertaken by its in-house practice.

Future of local public audit - consultation

- All Local public bodies with a turnover of over £6.5m to appoint their own independent auditor from the open market.
  - Decision to be made by Full Council, with advice provided by Audit Committee.
- Auditor appointment:
  - Audit rotation – competitive tendering process within 5 years of appointment. Max term two 5 year periods.
  - Transparency – inviting representations from public pre and post appointment
- Range of options for transferring the Commission's in-house audit practice into the private sector being considered.

Audit practice outsourcing

- 10 contract lots / 4 regions (max 1/region)
- Small bodies 28 lots (£100k)
- Principal bodies timetable:
  - Tender deadline – 16/12/11
  - Approval of contract awards – w/c 20/2/12
  - Audited bodies consultation – April to July
  - Appointments commence – 1/9/12
  - Staff transfer 31/10/12

Outsourcing impact on appointments

- Commission makes appointments
- Extent of ‘consultation’?
- Contract period 3 or 5 years?
- Ability to extend for further 3 years
- Will the process really open up the market?
- When will there be a legislative slot??

CIPFA audit committee survey

- 44% response rate
- Fieldwork between 8th March and 1st April 2011
- 58% had stand alone audit committee
- Further 23% had joint audit and governance committees
- Others includes joint audit and scrutiny committees or policy committees.

Focus of audit committee agendas

Most common areas

- Internal audit reports
- External audit reports
- AGS / SIFC
- Governance arrangements
- Risk registers
- Review accounts (75% also approve)
- Fraud investigation summary

Less frequent areas

- Reviews of specific risk areas
- Review of value for money
- Counter fraud work plan
- Fraud risk assessment
- Fraud data matching results
- Partnerships
- Pension schemes

Make-up of the audit committee

- A third include at least 1 member of executive / cabinet.
- 87% of committees have members who sit on a scrutiny committee as well as audit committee.
- 31% of respondents included at least one independent co-opted member. Of these 61% had full voting rights.
- 57% the chair of the audit committee is from the ruling party group

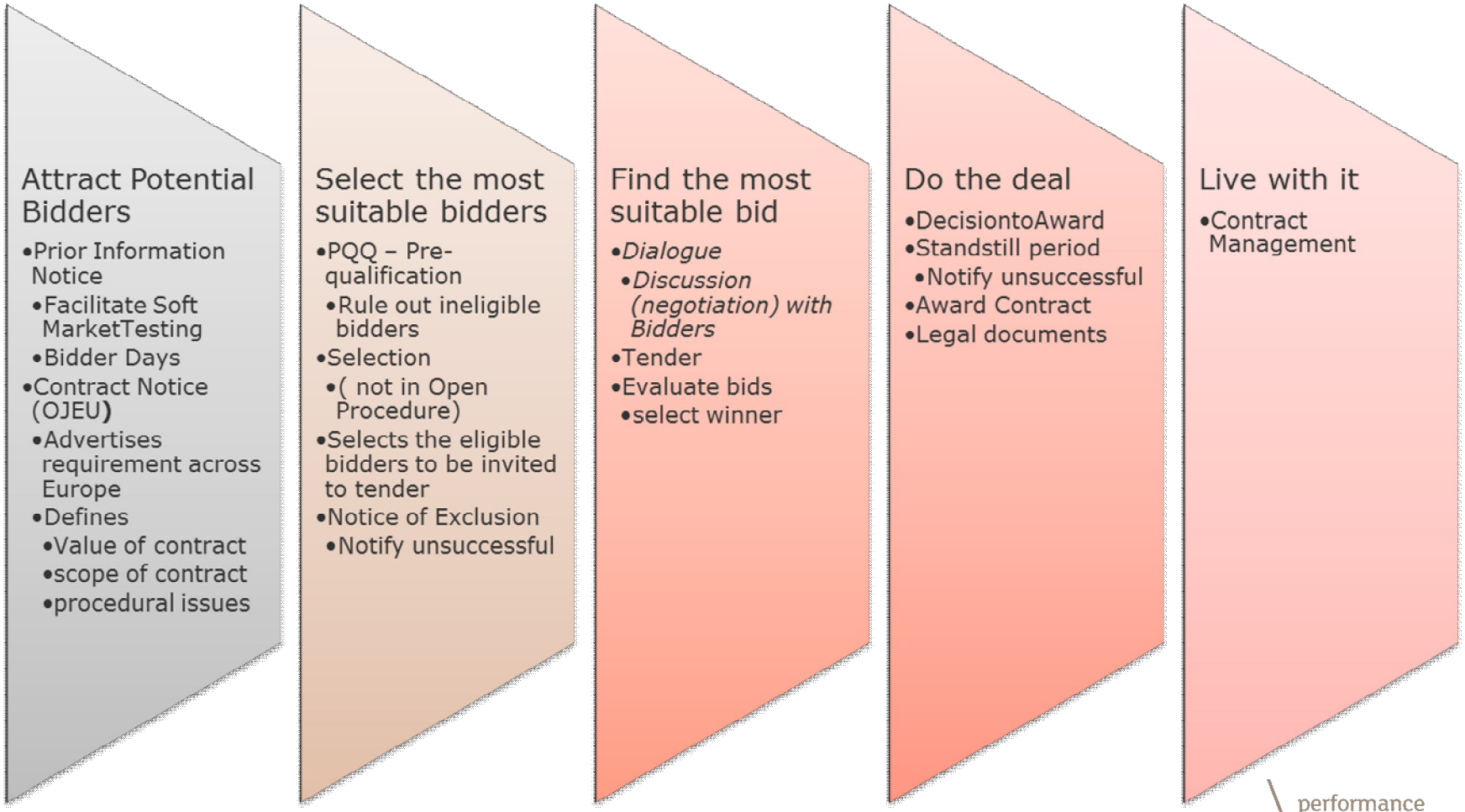
Audit Committees - Future challenges

- Areas for improvement
  - Audit committee members knowledge & experience
  - Greater emphasis on partnerships, counter fraud & risk management
  - Improve engagement and accountability
- DCLG proposals: majority of members independent of local public body with some elected members.
  - Sourcing members
  - Remuneration?
- Proposed new role will require significant changes to current make up of audit committees

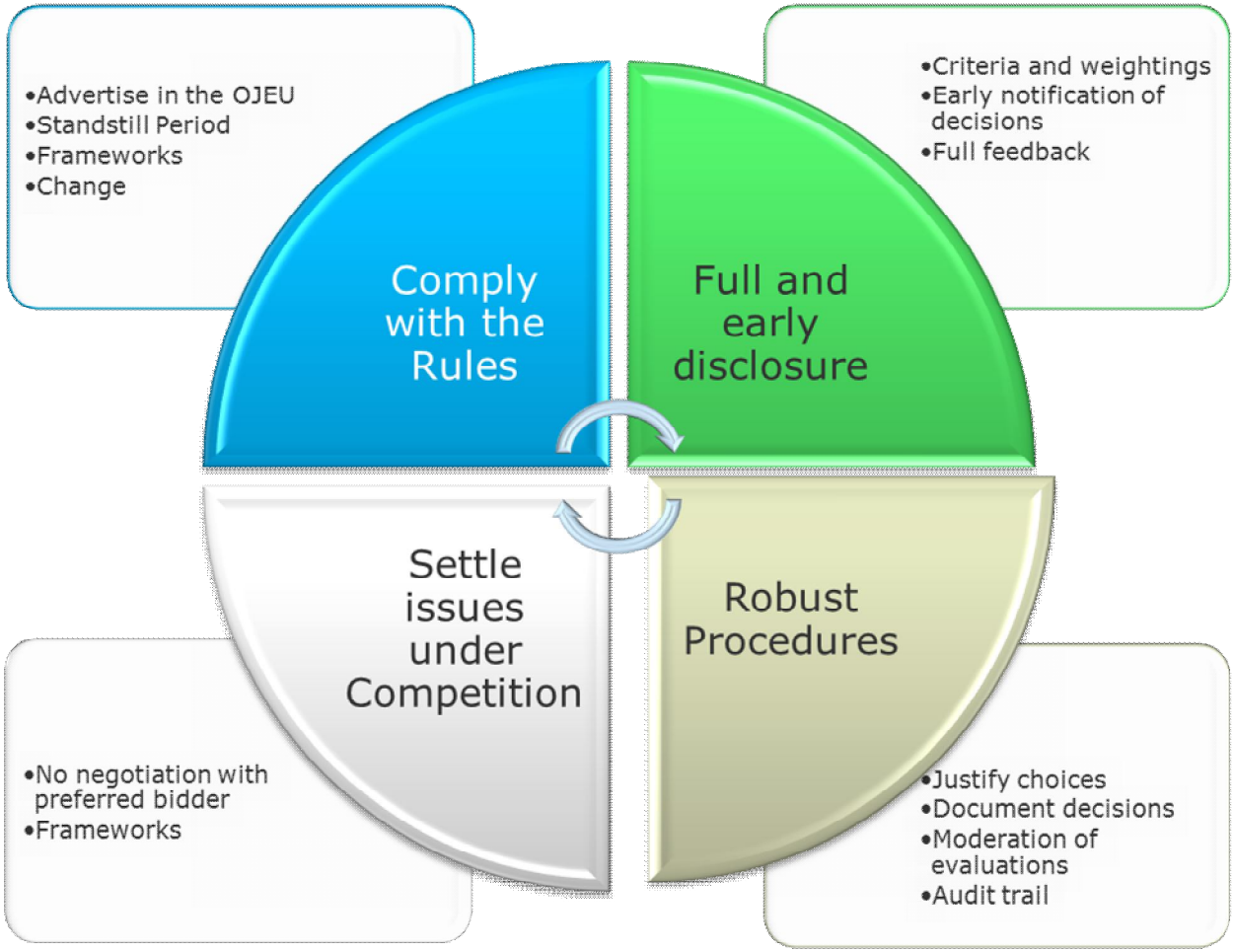
Basic principles of awarding a contract

- Contracts should be awarded on the basis of
  - objective criteria
  - compliance with the principles of
    - transparency,
    - non-discrimination and
    - equal treatment
    - proportionate
- Guarantee that tenders are assessed in conditions of effective competition (audit market concerns)
- Procurement takes time – some timescales are mandatory

Main stages of procurement process



Challenge risks - Avoidance and mitigation



Questions?

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