

**CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT
CONSULTATION QUESTIONS AND PROPOSED RESPONSES**

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?

We agree with the design principles set out but we also believe that it is important that any new arrangements do not add administrative burdens to any area of the public sector.

2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

Yes.

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

Yes. It would seem appropriate that both national and local government are audited under codes that are produced by a common overseeing body.

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?

Yes. However, as set out in the consultation, we also agree that arrangements need to be such that the pool of suitable audit firms is maximised.

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

The recognised supervisory bodies.

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?

The onus should be on the recognised supervisory bodies to put in place checks that ensure that audit firms are suitable to undertake local public audit without being over restrictive.

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?

Companies must be able to demonstrate that they have understanding and appreciation of the public sector ethos and that, whilst the financial statements are

important, transparency of decision making, governance and delivery of VFM are paramount. This will best be demonstrated through experience of auditing public sector bodies and new firms to the market must be able to demonstrate that they have auditors with this expertise even if the firm as a whole has not undertaken public sector audit.

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?

See response to question 9.

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?

All public sector bodies should be treated the same. We do not believe that it is appropriate to designate some as public interest entities and not others. This is how arrangements work under the Audit Commission and we cannot see that there is any reason to change this and care also needs to be taken that additional layers of audit do not make the arrangement more burdensome than at present. If Government wishes to designate some public sector bodies as public interest entities then a suitable risk based approach must be devised.

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 overall regulator should, as a last resort, be the body with responsibility for resolving disputes or issues but we do not believe that they should undertake additional audit work as a matter of course.

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?

Yes. As long as the legislation allows joint procurement then we consider the arrangements to be sufficiently flexible.

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

We are not convinced that there is a need for independent membership of the Audit Committee. A more proportionate approach may be for public sector bodies to have access to an independent viewpoint only for the consideration of external audit firm bids once every five years. However, if Government does wish there to be independent members on the Committee then we believe that the criteria requiring the independent members to be free of any relationship to existing members or

officers of the public body is correct but we believe that five years is too long for the period before which ex members or officers can apply. This could restrict the pool of suitable candidates and make recruitment more difficult and we would suggest a period of two years.

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?

The role of the Audit Committee goes much wider than just looking at the accounts and, under the proposed arrangements, appointing the external auditor. Care needs to be taken that the criteria do not focus overly on candidates with knowledge in that area and that the Committee loses knowledge and experience elsewhere. We do not believe that it is 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?

We believe that it may be difficult to appoint independent members of suitable calibre. We believe that it would be preferable if there were no set remuneration but that expenses would be paid. We accept that this must be weighed against the need to attract the right calibre of individual. There are potential professional liability / negligence issues to be considered which such persons may want to insure against.

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?

We believe that an independent chair would be sufficient and that care must be taken not to exclude elected members to such an extent that the knowledge and experience they have of the operations of the relevant authority is lost or that their approach is undermined by members of the Committee that have not been elected. We believe that the audit committee arrangements work well at the moment and would not wish to see this compromised for what would be the addition of only one function i.e. appointment of the external auditor every five years.

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?

We consider option 1 would strike the best balance. In practice the role of the audit committee is much wider and most of the additional roles to the external auditor appointment set out in option 2 are already undertaken. We would not see any reason why this would change under the new arrangements.

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

Yes. We do not believe that legislation is required. Public bodies are already operating successful audit committees without legislation but from guidance e.g. CIPFA. We cannot see why the additional duty of recommending the appointment of the external auditor should now require the entire role of the audit committee to be set in legislation. This would be over burdensome and unnecessary.

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?

No. Public bodies will just need to ensure that they follow their existing policies and procedures already in place for procurement.

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

We cannot see that this public engagement is needed. It does not exist for any other contractor or service provider that the council engages through a procurement process.

20. How can this process be adapted for bodies without elected members?

An existing committee or panel would need to be designated with independent members as appropriate.

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?

We consider that option 2 provides a sufficient safeguard otherwise there is a risk that an auditor might not be appointed.

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?

We believe that public bodies should be under a duty to inform a body when they have appointed an auditor. This makes it very clear that the appointment has taken place.

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

This should be a single regulatory body and therefore either the FRC or the NAO.

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

Yes. Alternatively, to ensure consistency with the private sector and so that there is enough choice in the market, there could be a restriction on the length of engagement of a particular auditor or partner rather than the firm as a whole.

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?

We believe the existing standards are sufficient.

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?

Yes.

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?

The arrangements would need to ensure that there was sufficient time for new auditors to be appointed. This may take many weeks if required to be done in accordance with EU Directives.

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. We believe that there should be consistency with the private sector in this regard.

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?

We believe that option 2 provides the best balance.

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. From the perspective of a local authority we already produce a set of accounts that is far more detailed than the private sector as well as an annual governance statement, numerous other plans and policies and compliance with the transparency agenda. In addition we receive and publish a number of external audit reports. All of these provide a clear and transparent view of the aims, goals, work and financial status of the authority. We believe that the requirement to produce an annual report would be an unnecessary extra burden.

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?

No. As set out in the previous response we believe that there is sufficient documentation already in the public domain to provide an overall view on the financial status and delivery of VFM of the authority.

We could, however, see the value of an annual report that provides an overview of the annual activity of the whole public body. This would need to be presented in a format that was accessible to the public and we would see this going hand in hand with a reduction in the reporting elsewhere, particularly the statement of accounts which is very lengthy and complex but of limited value to the general public.

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

The assurance provided by the auditor on the annual report should be reasonable.

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

If the Government wishes guidance to be provided that we believe that this should be broad guidance only so that it does not place an unnecessary additional administrative burden on local public bodies. We suggest that CLG produce 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?

Yes.

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.

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

Yes.

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?

Yes.

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

Yes.

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?

Yes.

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?

Yes but it would need to be clear what falls within the functions of the auditors as public office holders.

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)?

- (i) The auditor / audited body relationship should not be affected if the correct procedures and standards are adhered to and a professional relationship is in place.
- (ii) We are concerned that audit fees could increase if there are a significant number of Freedom of Information Act requests which auditors have to deal with.

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

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.

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

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.

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?

Not applicable – relates to smaller bodies.