

Future of local public audit

Consultation questions	CBC response
<p>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?</p>	<p>The principles cover the fundamental requirements of an external auditor provision. Key elements, such as, independence and transparency are clearly considered. The proposal does cover these elements. However, it does not cover the relationship between the external auditor, the internal auditor and other assurance providers. Currently arrangements in Local Authority enable various sources to be used to provide assurance to the Audit Committee, the Council and ultimately the public. The proposal does not indicate how the new arrangements would meet the Accounts & Audit Regulations (2011), and other current regulations and codes of best practice, although these may be amended to reflect the new scheme. It also does not indicate how knowledge and best practice would be shared between the 'new localised auditors' and passed on to the auditee to ensure the public sector can continue to compare and contrast their efforts with each other, which is a key element to driving out more value for money.</p>
<p>2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?</p>	<p>Not applicable for this authority.</p>
<p>3. Do you think that the National Audit Office (NAO) would be best placed to produce the Code of audit practice and the supporting guidance?</p>	<p>Yes - the NAO is best placed to produce the Code. However, this will need to be in consultation with other key stakeholders, for example, the Chartered Institute of Public Finance and Accountancy (CIPFA).</p>

<p>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?</p>	<p>Yes – We agree that the replication of the approval and control process for the auditors would be appropriate.</p>
<p>5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?</p>	<p>This function could be within the remit of the NAO</p>
<p>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?</p>	<p>This would have to be a policy decision of the NAO in the first instance that is then subject to review and consultation with both the potential providers of audit and the public sector bodies.</p>
<p>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?</p>	<p>The auditors will require the relevant understanding of the 'local issues' and stakeholders. Therefore for this authority CIPFA would be a key stakeholder and consideration given to the size of the organisation i.e. a second tier authority / Borough Council. Also as mentioned above, the ability to move knowledge and best practice between other authorities would be a requirement. However, controlling market forces and barriers to entry could not be a responsibility of this authority.</p>
<p>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?</p>	<p>In the interest of protecting the public purse, localism and transparency, and ensuring value for money from the public sector, all public interest entities should receive appropriate audit. However, this should be proportionate to the impact on the local community. Therefore a scaled or risk based assessment should be carried out. This should also ensure that the monitoring of the regulator does not drive up the costs of the provision and thereby defeat the objective of changing the current scheme.</p>
<p>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</p>	<p>See answer to question 8 above. Plus, the services delivered should be the key driver, with the focus of providing these services for the best value for money.</p>

<p>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?</p>	
<p>10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?</p>	<p>See 8 and 9 above.</p>
<p>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?</p>	<p>The proposal indicates means for several authorities to appoint the auditor too maximise the use of economies of scale. However, this authority is also interested in ensuring that the appointed auditor would not be required to audit a shared service more than once. This would enable the authority to drive out further cost savings from shared services.</p>
<p>12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?</p>	<p>The concept of independent members in general is not necessarily appropriate for a local authority whereby the Audit Committee members have been elected by the public and have a fundamental duty to the public. Therefore restricting their role through the introduction of independent Chair and Vice Chair as a minimum could be counter productive. However, independent members could be used to support or enhance the skills base of the Audit Committee. Therefore the skills and experience should be part of the criteria for the selection of independent members.</p>
<p>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?</p>	<p>The balance would require consideration with current developments in other sectors, for example, consideration of the results of the Walker Report (2009), UK Corporate Governance Code (2010), Financial Reporting Council Guidance on Audit Committees (2008), and other recent assessments of other sectors could inform this process.</p>

	<p>It is necessary for independent members to have financial experience, particularly relevant public sector finance experience, if they are to be considered for the Chair/Vice Chair as this authority has enabled the Audit Committee to approve the final accounts.</p>
<p>14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?</p>	<p>Yes, there will be difficulty in sourcing independent members, particularly when those who have a significant interest in developing the local authority would most likely look to do this by becoming a Councillor. There is the risk that 'independent' members are found from those that are unsuccessful in an election and have a detrimental impact on the Audit Committee.</p> <p>Remuneration is highly likely to be necessary and will become a problem if this cost counters savings made from the change in the selection of the auditor.</p>
<p>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?</p>	<p>Not necessarily as the fundamental decision of auditor appointment remains in the full council remit and only takes advice from the Audit Committee.</p>
<p>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?</p>	<p>See comment at 15 above. However, option (a) in paragraph 3.9 is most likely to be the option giving the locally elected Councillors in this authority the greatest opportunity for influence in the Full Council decision.</p>
<p>17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?</p>	<p>The proposal identifies that the Audit Committee "may wish to have regard to advice from the Section 151 Officer", this should also include the Head of Internal Audit as the other key internal officer with knowledge of audit practices. The greater prescriptive Option 2 would help to ensure the Audit Committees operate in a similar way and the aspects listed</p>

	help ensure other key duties are not discontinued.
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?	If the process is not a statutory code there is the risk that the process would be devalued. The NAO should set this Code in line with its remit for audit of public bodies.
19. Is this a proportionate approach to public involvement in the selection and work of auditors?	The approach taken should be in line with procurement policy and tender process best practice.
20. How can this process be adapted for bodies without elected members?	Not applicable for this authority.
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?	The option should be in line with the “comply or explain” principles of the UK. There may well be sound reason for a failure to appoint in the auditor as tendering processes are being suggested. However, this does need the support of penalties for excessive failure to appoint, but should not disable the ability for the authority to make a decision in its local community interest.
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?	The duty to inform when appointed and when failed could be used to inform the NAO and help maintain the register of auditors.
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	See 22 above.
24. Should any firm’s term of appointment be limited to a maximum of two consecutive five-year periods?	The firm’s term of appointment could be inline with the electoral term’s i.e. four year periods. However, limitation of appointment may help in the reduction of barriers of entry with new audit firms
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local	Yes these are sufficient safeguards.

public bodies? If not, what additional safeguards are required?	
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?	See 24 above.
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?	Yes these are sufficient safeguards.
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?	The new framework must ensure the auditors are reasonably accountable otherwise this is in conflict with the public bodies being audited.
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?	Option 3 would be the best suited arrangement for this authority.
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	Yes the performance and plans should be set out in an annual report to enable the localism and transparency aspects to be delivered.
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?	Yes – this information would give a better indication of the long term situation and provide assurance that the authority does not commit to short term strategies possibly driven by political fluctuations.

<p>32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?</p>	<p>Either term would need defining. However there is a recognised understanding of reasonable assurance. The concept of limited assurance could lead to the development of minimalist auditing and confusion with audit opinions where 'limited' assurance indicates a failing system of control.</p>
<p>33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?</p>	<p>Sufficient guidance to ensure comparability with other local public bodies, but not so restrictive that it does not allow local context. The NAO in consultation with stakeholders, for example, CIPFA and Local Government Association.</p>
<p>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?</p>	<p>The audit firms are most likely in the best position to comment on what would or would not influence their ability to carry out a public interest report (PIR). However, a route to the NAO for public concerns, perhaps in a similar form to the monitoring of auditor standards, could be used as a means to ensure PIRs are carried out.</p>
<p>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?</p>	<p>Yes – but this should be managed to ensure it does not impact on the firm's independence or objectivity.</p>
<p>36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?</p>	<p>Objectivity, integrity, confidentiality and competency are all key elements of the Auditor supported by his independence. These elements should be safeguarded through the codes.</p>
<p>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?</p>	<p>No – the route for disclosure should link to the NAO, not the Audit Committee, in line with comments made regarding PIRs at 34 above.</p>
<p>38. Do you agree that we should modernise the right to object to the accounts? If not, why?</p>	<p>Yes.</p>

<p>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?</p>	<p>The proposal does recognise the changes brought about by the transparency agenda. However, to comment on its effectiveness at this stage would be premature as the transparency agenda is still relatively new.</p>
<p>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?</p>	<p>This could enhance the transparency aspects of the Auditor.</p>
<p>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)?</p>	<p>Safeguards would be required to control any extension of Freedom of Information where the response could undermine the relationship between the auditor and the audited body. It could lead to a greater cost through the management of the information disclosed, particularly if addressing such matters as fraud and probity.</p>
<p>42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?</p>	<p>Not applicable for this authority.</p>
<p>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?</p>	<p>Not applicable for this authority.</p>
<p>44. What guidance would be required to enable county/unitary authorities to:</p>	<p>Not applicable for this authority.</p>
<p>a.) Appoint independent examiners for the smaller bodies in their areas?</p>	
<p>b.) Outline the annual return requirements for independent examiners?</p>	
<p>Who should produce and maintain this guidance?</p>	<p>Not applicable for this authority.</p>

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	Not applicable for this authority.
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 for this authority.
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 for this authority.
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 for this authority.
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 for this authority.
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 for this authority.

End.