

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **1 June 2011**

By: **Director of Corporate Resources**

Title of report: **Future of Public Audit**

Purpose of report: **To advise the Committee of the Department of Communities and Local Government's (DCLG) consultation paper on the future of local public audit and to seek its views on the Authority's response.**

RECOMMENDATION: The Committee is recommended to consider and comment upon the DCLG's consultation paper on the Future of Local Public Audit and the Authority's draft response

1. Financial Appraisal

1.1 There are potential financial implications should the DCLG pursue its proposals in full though these cannot be scaled at the moment, for example, through the appointment of external independent audit committee members, the requirement for county councils to either appoint a provider or act as provider of audit / examination services to smaller public bodies, the expansion of the scope of the audit – all of these could result in additional cost for local public bodies. In addition given the limited number of suitably experienced audit providers there is no guarantee that local appointment will drive down the cost of audit fees.

2. Supporting Information

2.1 Following its announcement that the Audit Commission was to be disbanded (see report to this Committee 10 November 2010) the DCLG has published a consultation document on the Future of Local Public Audit. The document sets out the Government's proposals for how a new local audit framework would work where:

- Audit quality is regulated within a statutory framework, overseen by the National Audit Office and the accountancy profession
- Local public bodies will be free to appoint their own external auditors with stringent safeguards for independence.

2.2 The proposals build on the statutory arrangements and professional and technical standards that currently apply to companies, with some adaptation to maintain the principles of public sector audit. The new framework is based on a number of design principles:

- Localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies;
- Transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions;
- Lower audit fees - achieving a reduction in the overall cost of audit;
- High standards for auditing - ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit.

In addition the framework has regard to the principles of public audit:

- Independence of public sector auditors from the organisation being audited;
- The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money;
- The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.

2.3 As an Authority we would support a strong and independent system of internal audit which is appropriate in the local context, non-bureaucratic and trusted by the public. We would also support the proposals that would see Local Authorities being responsible for the appointment of their own external auditors – subject to appropriate safeguards that would protect the auditor's independence.

2.4 However there are a number of areas where the proposals appear to run counter to the design principles and in our view are overly prescriptive and likely to increase the cost of public audit for little gain in terms of effectiveness, transparency or public reassurance, and these include:

- The mandatory requirement for independent (i.e. non-elected) members and chairs for audit committees
- The broadening of the scope of the audit appointment and the auditor's opinion
- The proposal that county / unitary authorities should have a role in the appointment of auditors or the provision on external examination for smaller local public bodies

2.5 In addition we are concerned to ensure that quality of audit delivery is not adversely impacted upon by the proposed changes, and that providers have appropriate experience in the complex area of local authority accounts. To achieve this without adversely affecting costs will require, in our view, a collaborative approach to the procurement of audit services which will aggregate spend and offer providers a sensible business opportunity which will justify investment in the required skills, experience and capacity.

2.6 Should the DCLG pursue all of the proposals included in the consultation then it is likely that the County Council will need to review the operation, scope and membership of this Committee and also potentially the role of the Governance Committee in relation to auditor appointment and approval of the accounts.

2.7 A summary of the proposals in the consultation is provided at Appendix 1. A full version of the consultation can be found on the DCLG's website at

<http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult>

A copy of the County Council's draft response which must be returned to the DCLG by 30 June 2011 is attached at Appendix 2.

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Local Member: All
Background Documents
 Report to Audit and Best Value Scrutiny Committee on Audit and Inspection Arrangements

<http://www.eastsussex.gov.uk/NR/rdonlyres/882C7FD2-ABEB-491C-B141-871E2CCA8233/25304/ABVSC10November2010item8AuditandInspectionArrangem.pdf>

Appendix 1

Future of Local Public Audit

A summary of the main proposals

- 1 The National Audit Office would prepare the statutory codes of audit practice (which would continue to be approved by Parliament), and would also produce any supporting documentation.
- 2 The Financial Reporting Council which acts as the regulator for Companies Act audit should take on a similar role for the local public audit regulatory regime in England provided that it can assure the Government that it has both the resources and expertise to undertake the role and wishes to do so.
- 3 All eligible local public auditors would be placed on a public register. To be eligible auditors would have to be recognised by supervisory bodies registered under the Companies Act 2006 and any other bodies with sufficient expertise and capacity.
- 4 Recognised supervisory bodies for local public audit would have responsibility for monitoring the quality of audits undertaken by their members (as they do in the private sector), would investigate complaints or disciplinary cases, and be able to remove firms from the register, or prevent registration.
- 5 All larger public bodies (with income/expenditure over £6.5m) would be under a duty to appoint an auditor who would need to be on the register of local public statutory auditors. Local public bodies will wish to cooperate and want to work together to procure an external auditor. Legislation will provide for both joint procurements and joint Audit Committees. If a body fails to appoint an auditor the Secretary of State would be able to direct the body to appoint an auditor or could be provided with the power to make the appointment.
- 6 Auditors would be reappointed annually, but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive term following competition, but would need to procure a different audit firm at the end of that period.

Audit Committees

- 7 Each larger local public body should have an Audit Committee with a majority of members who are independent of the local public body and with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
- 8 Legislation is likely to specify some responsibilities that an Audit Committee would have in relation to the engagement of an auditor and monitoring the independence and quality of the external audit. The Audit Committee would provide advice and guidance to full council on appropriate criteria for engaging an auditor, and would be given copies of the bids to evaluate, and advise full council. Advice provided by the Audit Committee would be published (with consideration given to the treatment of commercially sensitive information). The consultation documents sets out two different models for the level of detail of mandatory duties on Audit Committees that might be specified in legislation.
- 9 Full Council would be responsible for the selection and engagement of auditors. In this process Council would need to have regard to the advice of the Audit Committee but would not have to follow the advice. Should the Council not follow the advice then it would need to set out the reasons why it had taken a different position.

Resignation or Removal of Auditors

- 10 Arrangements for the removal of auditors, or the resignation of auditors should mirror those in the companies sector with a requirement for 28 days written notice, involvement of the Audit Committee and the regulatory supervisory body in investigating the issues, safeguards on the right to make representations, and publicly accessible statements.

Auditor liability

- 11 The consultation suggests that it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual arrangements, and that a legislative framework could set out the process for setting and agreeing liability limitation agreements. It suggests that without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.

Scope of Audit

- 12 The consultation document sets out four different options for the scope of audit of local public bodies, ranging from a reduced scope more in line with that for companies, with no assessment of value for money, to arrangements requiring conclusions on the achievement of value for money or a requirement to produce an annual report setting out the arrangements that the audited body had put in place to secure value for money and whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.

Provision of Non-Audit Services

- 13 The consultation document proposes that auditors will be able to provide non-audit services to the audited body, but with safeguards to prevent any actual or perceived threat to the Auditor's independence. Auditors would continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.

Public Interest Reporting

- 14 The duty on an auditor to consider whether to make a report in the public interest would be retained, along with the current publication requirements and the responsibility of the audited body to consider the report at a meeting within one month of receipt and to publish a summary of the meeting's decision. The consultation also proposes that the auditor should retain the power to make a recommendation requiring a public response, and to issue an advisory notice to the body where they believe that the body is about to or has made a decision involving the unlawful incurring of expenditure.

Transparency

- 15 The consultation proposes that the rights for local government electors to make formal objections to the accounts should be removed, although members of the public would retain the right to make representations to the auditor, raise issues with the auditor and to ask the auditor questions about the accounts. Auditors would also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Local public bodies will be required to publish their accounts and the auditor's report on their website.

Arrangements for Smaller Bodies

- 16 The consultation proposes a proportionate regime for smaller local public bodies under which the income and expenditure of the body determines the level of audit or scrutiny required (the larger the income or expenditure the greater the audit and scrutiny required). Bodies with income or expenditure under £1,000 would not be subject to external examination or audit. Such bodies do not currently pay a fee for an audit or examination. Bodies with an income of between £1000 and £6.5m would be subject to independent examination rather than a full audit. Examiners of small bodies would act for a maximum of 10 years in line with the current practices of the Audit Commission.

Communities & Local Government
Future of local public audit
 Consultation (March 2011)

Draft County Council Response (deadline 30 June 2011)

Question	Proposed ESCC Responses
<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>In general we support the CLG's design principles. Transparency, value for money and high standards of auditing are something that we would all sign up to. Localism and decentralisation in delivery of services are also to be welcomed, However we would add one further principle, and that is to achieve consistency and proportionality across the public sector – we believe that with the removal of the Audit Commission as a body providing national guidance and technical expertise there is a risk that different providers will adopt varying approaches to and interpretations of accounting and auditing standards. We are also concerned that local procurement of external audit services could in some cases expose audited bodies to higher costs, especially for smaller bodies or those located in rural areas more distant from the offices of existing providers.</p>
<p>2. Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?</p>	<p>As this service is run now by central government this would seem to be logical. The consultation is unclear as to whether this would also apply to the Police.</p>
<p>3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?</p>	<p>The National Audit Office is probably the best placed organisation to do this in terms of objectivity and general experience but will need to be adequately resourced, have access to appropriate local government expertise</p>

	and develop its understanding of and engagement with both audited bodies and audit providers in the sector.
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?	There should be a system for approving and controlling statutory auditors but it seems odd that NAO set standards and FRC decides who meet them. In our view it would be more efficient for both these functions to be vested in a single body accountable to central government i.e. the NAO.
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	The Financial Reporting Council could take over the regulatory role but are unlikely to have the resources to do so. Those resources will only be found at a cost which the FRC would no doubt pass on to local authorities. A body that performs a similar role for government such as the NAO seems more appropriate.. They would be more likely to have already have a more comparable type of expertise and would be less likely to be seeking to benefit financially from such an arrangement.
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?	It will be important to set out proper criteria regarding the level of experience and qualification of staff performing this work. Due to its specialist nature, audit firms must be employing appropriately experienced and qualified staff if they are going to take on LA work. The onus is on the audit firms to ensure that they are appropriately staffed. Given both the complexity and importance of the final accounts process and its associated frameworks, statutory and otherwise, it is unlikely that any local authority will take the risk of engaging external auditors who do not have demonstrable previous experience of delivery in the sector. This brings with it an associated risk that with a

	limited field of providers, costs will rise, especially if robust collaborative procurement on a national or regional basis is not adopted.
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?	The market should be restricted to providers who are capable of carrying out the work. There are professional qualifications that will help to demonstrate this as well as experience of previous good performance and maintenance of sound client relationships. Tendering processes would ensure the selection of the right firms
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?	There are no particular public sector bodies that would merit such a designation.
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?	This is in our view a somewhat specious argument – all public bodies (not just those at a local level) are of course 'of public interest', in that they serve the public and are accountable to them for their actions, including the stewardship of public funds. However, we can see no case for an additional level of regulation and its consequent cost for local public bodies. The CLG (and the public more generally) would be better served by ensuring that existing regulatory bodies fulfilled their role in an effective manner, that the NAO is properly resourced and experienced to fulfil their proposed role and that there is a competitive market for the provision of public audit.
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?	Not necessary in our view.

<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 proposals are not explained in much detail; however, we welcome the provision for joint procurement. It is our view that in order to ensure robust competition on both price and quality and ensure that smaller bodies or those more distant from providers current offices are not disadvantaged, that there should be either national or regional procurement, possibly with the establishment of a framework for providers of public audit from which local public bodies, grouped on a locally determined geographical basis, could carry out a mini competition to select a provider. There would be no need to have joint audit committees to carry out a joint procurement. Joint procurements of internal audit and many other services already happen on a regular basis in local government.</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>There is the need for further clarity on the CLG's definition of what constitutes an independent member of an audit committee. In the private sector, audit committees are formed of non executive board members – they are independent of the executive, but they are still part of the audited body as appointed board members. This provides for appropriate independence of the audit committee within the private sector, and therefore we can see no logic for adopting a different definition of independence for public sector audit committees. In our view a public sector audit committee should be entirely formed of (and chaired by) elected members who are independent of the executive and the cabinet. This is how our audit committee is currently constituted; indeed our constitution requires that</p>

	<p>the committee is chaired by a member of the main opposition party.</p> <p>In our view the inclusion of those other than elected members should be (in the spirit of localism and decentralisation) a local decision. There are many examples of highly effective audit committees within the sector formed of democratically elected members independent of the executive – where such a committee is not functioning effectively, for example where there are insufficient elected members with relevant financial experience, then it should be for the local body to agree to source external appointments.</p> <p>It would seem somewhat perverse also if requirements were placed on local public bodies that are not in place for other parts of the public sector – for example the equivalent committee in government the Public Accounts Committee is formed of democratically elected MPs and is chaired by an opposition MP. Should this not also be the model for local authorities?</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>Some members of the committee with financial expertise is extremely helpful but members of the committee versed in risk management, governance and wider controls are equally valuable as the audit committee role is far broader than just dealing with the financial accounts.</p>
<p>14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if</p>	<p>If the legislation mandates the inclusion of external members (i.e. not elected members) then for the numbers</p>

<p>so, at what level?</p>	<p>proposed, finding people with suitable expertise could present problems especially in rural areas and for 2 tier areas if each authority decides to have a separate Audit Committee. For such a responsible role remuneration would be necessary especially as the elected members of the committee will be remunerated. Non elected members acting as chairmen should be remunerated on the same basis as chairmen of other committees. This could have a significantly increase the cost of public audit at a time when local public bodies face their biggest financial challenge in a generation – with potentially little impact on the quality of public audit.</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>Option 1 is all that it is necessary to specify in legislation. In the spirit of localism it would be better to allow public bodies to make their own arrangements. They will have best practice guidance from bodies such as CIPFA anyway.</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>Option 1 is localist and sufficiently robust.</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 roles for the audit committee specified in legislation should be limited to that outlined in option 1 i.e. to provide advice on the appointment and removal of the external auditor. There is a much wider role for an audit committee</p>

	and that may include some of the functions set out in the option, however, by specifying these in legislation it would remove any flexibility for committees to change and develop their effectiveness over time and in response to local circumstances. The broader role of an audit committee is best dealt with through the provision of best practice guidance, for example that already provided by CIPFA.
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?	Using guidance would be the best approach. The audit body could then be asked to state reasons for not following the guidance when appropriate. Guidance could be produced by CIPFA/Solace or the NAO.
19. Is this a proportionate approach to public involvement in the selection and work of auditors?	It is important to avoid specifying in too much detail the public's involvement in the appointment process – for example the requirements set out in the consultation could be difficult to follow if an appointment was via a regional or national framework. It would perhaps be simpler to say that a list of potential providers should be published by the public body at least one month prior to any appointment decision being made – this would allow the public sufficient time to make representations to the audit committee should they wish.
20. How can this process be adapted for bodies without elected members?	A fully independent panel.
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	Option 2 – this best meets the design principles and is sufficient sanction to ensure that local public bodies do carry out their statutory responsibilities.

fulfils its duty?	
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 latter i.e. only when they have failed to appoint.
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	National Audit Office
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	Yes
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?	Yes
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?	Reappointing Auditors on a five yr basis is proportionate, however having that appointment approved by Council on an annual basis adds no value and is unnecessary bureaucracy. This could mean having annual contracts which provides uncertainty for firms which they will offset by charging more to clients.
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
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 though this will be reflected in their charges.
29. Which option would provide the best balance between	The role of local public audit of needs to be

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?

considered within the context of recent developments in the system of accountability for local government. These include: an agreed principle that councils are accountable to their local communities; a reduction in national burdens with the abolition of national targets and Comprehensive Area Assessment (CAA); and a new system of self regulation and improvement for local government is being introduced.

It would be in keeping with these new developments for the starting point for local public audit to be one that complements and supports local accountability and self regulation. Therefore, at this time, local public audit should take a minimal role focused on providing public reassurance that public funds are being used appropriately.

Option 1: This would provide an adequate assessment of how well governed are the audited body's finances. This option would return audit to the position before the introduction of Use of Resources (UoR) assessments made as part of the Comprehensive Performance Assessment (CPA) regime. This is our preferred option.

Option 2: A conclusion on whether there are proper arrangements in place to secure value for money was added to the old CPA UoR audit requirements. If this were to continue it would be important to strengthen procedures to ensure that audit

judgements on securing value for money were politically neutral and focused on the success of arrangements to achieve economy, efficiency and effectiveness not the methods used.

Option 3: This would be a move towards greater prescription than for option 2 and risks repeating the errors of CPA and CAA in having the potential to politicise audit. Achieving value for money may be defined as achieving the intended outcomes through the best use of resources; the intended outcomes being the locally defined policy priorities. We have two concerns here; first as the consultation paper states 'it is also possible that auditors would have difficulties in reaching a robust conclusion on value for money'. Second is the potential for the vfm audit judgement to drift from local to national priorities by means of the detailed guidance on the specified criteria used when making the judgement. There would need to be strong procedures in place to ensure the independence of the specified criteria used and these should be consulted upon.

As the paper states this option would require more audit resources. The difficulty in reaching a fair judgement is likely to lead some council's to commit further resources to presenting their case and contesting judgements. This would be particularly likely if the audit reports were promoted as reports on the audited body to the public and media rather than

as a means of improving public services that are openly available.

Option 4: The requirement to produce an annual report setting out a local public bodies' performance and plans subject to external audit was a requirement under the Local Government Act 1999; the Best Value Performance Plan. That requirement was dropped in 2008. Before introducing a similar requirement the proposals for local government self-regulation should be tested. Those proposals are for councils to publish regular performance information so that the public can understand how well their council is meeting its objectives (e.g. an annual report); the content and means are not prescribed.

The Department of Health's Transparency in Outcomes for Adult Social Care consultation document proposed that local authorities produce an annual local account. Following consultation the Government has stated that 'in the context of the sector-led work on improvement, within which the local account sits, we do not feel it is appropriate for Government to lead on this'. It would be consistent with that decision for annual reports covering value for money etc to be developed as part of sector-led work. Only if this approach fails should a statutory requirement be considered.

East Sussex County Council currently produces an

	<p>annual report and a council plan. The natural planning cycle dictates that these are best produced separately and at different times of year. We are happy to work with Government to develop these and other means of informing the public about the Council's work and how it spends public money. However, introducing a statutory annual report means that the format and content would be prescribed. The problems caused by making both the report and its audit statutory, and then promoting the reports as a means to public and media criticism were the key drivers that led many councils to devote considerable resources towards presenting their case to the auditors for CPA and CAA. Such resources are best used for productive self-assessment, innovation, improvement and service delivery. Although East Sussex County Council chose not to allocate significant resources to additional activity under CAA we do recognise that many authorities felt obliged to undertake work solely to meet the perceived needs of audit. Audit should provide reassurance and facilitate improvement, things that were diminished by some aspects of CAA and having just abolished that regime this option in its current form would appear to be a retrograde and contradictory step.</p> <p>Options 3 and 4 would undoubtedly add, potentially significantly, to the cost of public audit.</p>
30. Do you think public bodies should be required to set out	No, not in this prescribed and statutory format.

<p>their performance and plans in an annual report? If so, why?</p>	
<p>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?</p>	<p>No, a separate report by independent auditors is the best method for reporting on financial resilience, regularity and propriety. Councils should use annual self assessments and an annual report if they choose to do so along with other means to demonstrate the services, performance and value for money they provide locally.</p>
<p>32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?</p>	<p>This is not a concept that is likely to be of interest to the wider public. Presumably the difference is that the audit work will be more in depth for a "reasonable" assurance and therefore more expensive. If it is felt necessary to have a compulsory annual report then "limited" should be sufficient.</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>If it is considered necessary to provide an annual report then Guidance should be minimal and should be produced by existing bodies for example SOLACE and CIPFA in conjunction with the NAO. The main purpose of the report should be to increase public engagement and provide reassurance regarding the stewardship of public funds – hence any guidance should be sufficiently flexible to allow local public bodies to achieve this in the light of local circumstances.</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 proposals should ensure the independence of the auditor. We are however concerned that in the absence of the Audit Commission there will be no body able to ensure</p>

	<p>consistency of approach to the issuing of PIRs, and no recourse for a local public body should they disagree with the grounds for the publication of such a report. This role should be taken on by the NAO in our view.</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 – and we are supportive of the proposed role of the Audit Committee in ensuring that this does not lead to any conflict of interest that may fetter the auditor’s independence in fulfilling their core role. However, we would urge some flexibility perhaps through delegation of powers, in cases where urgency is necessary, for example where an audit investigation is required, without the need to await a meeting of the audit committee which may only occur every 2-3 months.</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>In terms of non audit services then yes because in the long term the proposals will not reduce the number of auditors eligible to audit public bodies in any significant way. Local authorities already have internal auditors who provide additional audit services much more cheaply than external ones. Therefore the sort of work which external auditors would provide would be likely to be one off, specialist and costly. They might wish to ask for tenders for this work. This could encourage rather than discourage competition.</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>It is not clear how this would operate in practice – our understanding is that prescribed persons under the PIDA are in fact a range of regulatory bodies amongst which the Audit Commission is listed. We are not clear what the implication of designating an individual as a prescribed person would be and question whether it is necessary – our view is that it would be more straightforward to add the</p>

	<p>National Audit Office and the Financial Reporting Council to the list of prescribed persons.</p> <p>All public bodies will already be covered by the requirements of the PIDA and should have in place appropriate confidential reporting policies and processes. These will include the ability to report concerns outside of normal line management (usually including the Head of Internal Audit and the Monitoring Officer who have independent roles within most public bodies). Officers or members of the public can also raise concerns with elected members, prescribed persons or the local government ombudsman. In our view this provides sufficient protection for those wishing to make public interest disclosures.</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>This seems a sensible way forward. Giving the auditor greater discretion over whether an issue raised warrants being followed up will ensure that only matters in the general public interest are pursued and reduce the impact and cost of pursuing frivolous, vexatious or otherwise immaterial issues.</p> <p>The requirement to formally advertise the publication of the accounts, however, seems somewhat archaic and is costly. Publication of the accounts and the auditor's report on the public body's website should be sufficient.</p>
<p>40. Do you think it is sensible for auditors to be brought within</p>	<p>No it seems pointless and likely to lead to additional cost</p>

<p>the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?</p>	<p>with little benefit to the public The ownership of the data gathered by the external auditors rests with the bodies they audit and any request should be directed to them under existing legislation.</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>In our view this proposal is likely to lead the auditors to increase their fees and therefore the overall cost of public audit. It could also detrimental to the audit process and the relationship between the auditor and the audited body should disclosure result in harmful and unnecessary dispute.</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>We would not support option 1 i.e. the proposals that in order to avoid smaller audited bodies, (for example Town or Parish Councils) incurring the “significant cost” of maintaining an Audit Committee, that the relevant county or unitary council (and more specifically their S151 officer) should be responsible for appointing that body’s independent examiner or auditor. This responsibility is currently borne by the Audit Commission and we can see no reason why this should not transfer to the NAO or another national body – in our view it would not be appropriate for county or unitary councils to bear this responsibility or its related cost.</p> <p>Option 2 gives would give the small body the most freedom to make the necessary arrangements and is our preferred option. Arrangements could be made collectively by the NAO, or via another representative body e.g. NALC,</p>

	Society of Local Council Clerks.
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>No. County Councils / Unitaries do not want a significant additional unfunded responsibility and burden which will not in any way help them to achieve their objectives. There are large numbers of parish and town councils in any county or unitary.</p> <p>Some smaller bodies may perceive this as the interference of the county/unitary council in their affairs as an independent body.</p> <p>Most Section 151 officers and their teams already have huge and increasing workloads (IFRS) and reducing resources.</p> <p>The additional costs will be likely to include administrative support, procurement expertise, committee organisational support, expertise in dealing with accounts objections. In total probably the equivalent of at least two full time staff plus overheads.</p>
44. What guidance would be required to enable county/unitary authorities to: <ul style="list-style-type: none"> o Appoint independent examiners for the smaller bodies in their areas? o Outline the annual return requirements for independent examiners? o Who should produce and maintain this guidance? 	<p>County Councils/Unitaries should not be doing this. Guidance to whoever runs this for the smaller bodies should be provided by the National Audit Office</p>
45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	Yes providing the process was complied with
46. Are there other options given the need to ensure	Smaller bodies could either procure / appoint auditors

<p>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?</p>	<p>collectively through existing peer groups / representative bodies or could work together with other public bodies in a geographic locality (e.g. a county) to appoint a common audit provider (preferably from a national or regional framework).</p>
<p>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?</p>	<p>It seems to be about right in light of the variety of size and complexity of organisations concerned. The £6.5m threshold seems reasonable but would need to be reviewed periodically.</p>
<p>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?</p>	<p>No – in line with our responses to the preceding questions we believe that this would be unworkable and place an unnecessary additional burden on county / unitary councils. Public interest reporting issues for smaller bodies should be dealt with by a national body such as the NAO in our view in much the same way as the Audit Commission currently co-ordinates the appointment of auditors for smaller bodies.</p>
<p>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?</p>	<p>As above this is not an appropriate role for County Council/Unitary Councils. A fully independent body such as the NAO could deal with this.</p>
<p>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?</p>	<p>As above this is not an appropriate role for County Council/Unitary Councils.</p>