

### **CLG's consultation on Future of Local Public Audit**

The CLG's announcement in August 2010 of a radical overhaul in the external auditing regime of councils will significantly impact on all local authorities. Therefore the CLG's consultation document entitled 'Future of Local Public Audit' dated March 2011 is very much welcomed.

As requested, the document has been considered in the context of external auditing requirements and answers to the 50 questions posed by the CLG are shown in the table below.

No.	Question	Response
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>In general, the design principles are sound (localism, transparency, cost-reduction and high auditing standards) but we have concerns about the practicality of an independent appointment of auditors (see response below).</p> <p>It must be ensured, through the design, control, and regulation of the system of public audit, that all four principles are upheld, without favour to any other; audit quality must be maintained and not compromised due to a desire for financial savings. In particular, the staffing of local audits must be by experienced individuals..</p>
2.	Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?	Agree.
3.	Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?	The best methodology for drawing up a code of practice for local government would be through CIPFA (because of its unique position as the Accountancy body best placed to advise on the nuances of local government) in conjunction with the NAO. The NAO must have responsibility for regularity, probity, and Value For Money Requirements.
4.	Do you agree that we should replicate the system for approving and controlling statutory auditors under the	Agree.

No.	Question	Response
	Companies Act 2006 for statutory local public auditors?	
5.	Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	<p>The recognised supervisory body for local public audit should be responsible for maintaining the register; one of the key functions of the supervisory body should be the responsibility to maintain a list of members registered to carry out external public audits. This maintenance should be delegated to a single body which is more efficient than each body maintaining its own list. For the audit of local government that body should be CIPFA because of its knowledge of the sector.</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>The National Audit Office should specify standards, including minimum experience of auditors, in its code of auditing standards. Further detailed guidance can be delegated to the qualifying bodies (who are responsible for regulating individual accountants) and the supervisory body (who is responsible for regulating external auditors).</p> <p>It is imperative that any firm authorised to undertake public audit has employees with a sufficient level of experience and knowledge of the local government statutory and accounting and audit framework. A new firm entering the market would not be restricted from becoming registered providing it could demonstrate that it had a sufficient number of employees with an adequate level of skills, knowledge, qualification, and experience. This should include a requirement to have a named audit principal for each audit who must meet qualification, experience and reference standards and who is personally responsible for the quality and diligence of all external auditing undertaken by them.</p>

No.	Question	Response
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>The audit firms authorised to undertake audit in local government must have demonstrated that they employ sufficient numbers of people with an adequate level of skills, knowledge, qualification, and experience; this would include skills, knowledge and experience of all specialist areas such as Housing Revenue Account and Housing Benefits, in addition to the legislative framework around the production of local authority accounts.</p> <p>External auditors should have no criminal record, no director penalties and be free of any conflict of interest.</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?	All local public bodies should be categorised as public interest entities. The level and intensity of the audit could be set based upon the size of that entity on a turnover basis.
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?	<p>The regulator should undertake monitoring of these bodies. The bodies should be categorised on the size of the entity and by services provided.</p> <p>Each council with turnover of greater than £6.5m should be subject to a full annual audited, with standards and safeguards protecting the independence of such auditors. The supervisory and qualifying bodies must sanction and discipline any auditor falling short of the standards. Ultimately the NAO should have powers to penalize any supervisory or qualifying body which fails to adequately reprimand one of its members falling short of the standards.</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?	The regulator should undertake independent investigation of a sample of audits to assure itself of the quality of audits.

No.	Question	Response
		<p>In addition to the duties in paragraph 2.22 of the consultation paper, the regulator (NAO) could receive appeals from stakeholders who have requested a public interest audit and been turned down.</p>
11.	<p>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>There is no need to give any comment or guidance on joint procurement. If local bodies want to procure jointly they will. The approach outlined in the document is too bureaucratically cumbersome. The typical external audit fee for a district council is £120k p.a., which should reduce considerably with the demise of inspection and greater competition. This is a small contract compared to most other council contracts. Requiring a full council decision is excessive even for a single council. If a number of councils wish to undertake a joint procurement, it would be logistically impossible to synchronize all of the separate full council decisions. A joint committee with representatives from each of the councils involved would also be difficult to organize.</p> <p>Instead, the procurement, selection and appointment processes should be no different to any other consultancy or contract. It should be possible to make a council's section 151 officer explicitly responsible for the integrity of the auditors' appointment process (which arguably they already have implicit responsibility for).</p> <p>The special quality of the external audit contract is in its independence. There therefore needs to be controls over the termination of an external audit contract rather than the procurement of one; the risk is that a council may cancel a</p>

No.	Question	Response
		contract to avoid a critical report. To safeguard against this, any early termination of a contract should be reported to the regulating body (the NAO)
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>It is agreed that only appropriate people should be on the audit committee but the proposals in the paper appear to be contrary to the principle of localism.</p> <p>Audit Committees are likely to have broader and more complex roles than simply appointing external auditors – see response to Q16.</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?	There does not need to be a rigid single system. An audit committee that acts independently is important, however achieving this via a committee comprising independent, financially astute citizens with relevant experience is ideal but is not necessarily practical or achievable. The model adopted should be a matter for the council to decide. The responsibility and accountability for the decision could be placed with an existing statutory officer e.g. the Monitoring Officer or s.151 officer.
14.	Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	<p>Yes – see above proposals in answer to question 13.</p> <p>Potentially councils could look to provide remuneration but this should be commensurate with the necessity for remuneration and the expected level of commitment. Councils should have discretion to determine the need for remuneration and the level of that remuneration at a local level.</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	In general, the original purpose of changing the current external audit regime is supported – to streamline processes and effect efficiencies. There is a risk here that

No.	Question	Response
	<p>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>audit committees are overly engineered with rigid rules. There is a risk of replacing one type of bureaucracy with another and driving out efficiencies from the external audit costs only to add additional costs via the set up of audit committees</p> <p>In order to gain comfort about the independence aspects, an existing statutory officer could be made responsible for overseeing the integrity of the committee.</p>
16	<p>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 (a single mandatory role to advise the council on the engagement, removal or resignation of the external auditor) is preferable, allowing each council the discretion to extend the committee's remit according to local needs and changing circumstances.</p> <p>Many councils already have an audit committee or (corporate) similar and follow CIPFA guidance. It is likely that most councils would wish the mandatory audit committee to take on the duties from existing audit/governance/overview committee(s). However, the terms of reference of such committees already vary to reflect local needs as there is no 'one size' solution for every council. Therefore, such duties should not be mandatory or imposed on every council.</p> <p>In the unlikely situation where an audit committee has the single mandatory role for external audit and no other locally determined duties, it becomes questionable whether the committee is cost-effective. By making a statutory officer (ideally the s.151 officer) responsible for monitoring the working of the committee, that officer would be expected to</p>

No.	Question	Response
		advise their council how to improve the VfM and cost-effectiveness of the committee.
17.	Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	<p>As per 16 above - the other roles listed in the consultation document <u>are</u> appropriate and commonly are discharged already by audit/governance/overview committees.</p> <p>The role should <u>not</u> be specified in legislation but as now should be set out in guidance by CIPFA which public bodies should be required to have regard to.</p>
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?	<p>No. Councils are able to procure the full range of important and expensive services without detailed regulation. External audit should not be an exception.</p> <p>If government wants to protect the integrity and independence of external auditors, it simply needs to make a statutory officer responsible for ensuring such.</p>
19.	Is this a proportionate approach to public involvement in the selection and work of auditors	<p>No – there is no reason for such prescription and interference in what in effect is just another procurement of services. There is no tangible benefit in involving the public in the appointment of external auditors. The public is unlikely to be interested in the routine appointments, is inexperienced in such procurements and is unlikely to add value.</p> <p>In each council there are many more 'public interest' and higher value contracts for goods and services likely to be of interest to the local community - which do not require public involvement. Again, there is no reason to make external audit a unique exception.</p>

No.	Question	Response
		To involve the public would require great effort and expense to engage an adequate number of residents, who would then need to be sufficiently trained and motivated to provide informed judgments. This would delay the process and add additional cost, further eroding any efficiency gains.
20.	How can this process be adapted for bodies without elected members?	<p>The public sector is diverse. Rather than trying to impose a 'one size' solution, each sector and type of organization should be considered and a solution found based on its particular current constitution and governance structure.</p> <p>(E.g. for the police, the Police &amp; Crime Panel would seem to be a suitable vehicle)</p>
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?	<p>There is a simple, cheap solution already in place – namely the council's existing statutory officers, such as the section 151 officer. It could be made one of their statutory duties to ensure the external auditor is appointed and if a council fails to appoint then the section 151 officer could have powers to appoint in default.</p> <p>As an added failsafe the government could give the secretary of state the power to appoint if the council fails to do so - but this power would be unnecessary if the statutory officer is held accountable.</p>
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?	Appointment will be normal practice. There is no need for any body to be informed about appointment; this is unnecessary inefficient bureaucracy and cost.
23.	If notification of auditor appointment is required, which body should be notified of the auditor	This should not be required. If any requirement is placed on a body, it should be the responsibility of the NAO to



No.	Question	Response
	appointment/failure to appoint an auditor?	report this to the Secretary of State.
24.	Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	<p>All that is required is a requirement that the audited body puts in place procedures conforming to best practice on ensuring independence and rotation of audit team members. A limit of appointment should not be necessary if a proper procurement exercise has been undertaken.</p> <p>The integrity and independence of the external auditor should be maintained without compromise – especially if a statutory officer is personally ensuring such - and from a procurement perspective it might be more cost-effective to provide more flexibility without such rigid rules.</p>
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?	<p>As 24</p> <p>In addition, the requirement for full council to re-appoint the external auditor annually on the advice of the audit committee is unnecessary. To secure best value and provide certainty to the audit firm, the contract needs to be for a predefined contract period (say 5 years). An annual opt-out will introduce significant risk to the audit firm which will be reflected in much higher fees. The process would also be much more onerous for the council to manage. There are sufficient safeguards over the removal of an auditor, so the annual re-appointment is unnecessary.</p>
27.	Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or	This provides sufficient safeguards.

No.	Question	Response
	resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?	
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. Risks need to be properly managed, which does not necessarily mean that external auditors should be expected to face unlimited liability (as that will be reflected in risk premiums and much higher audit fees, which fails one of the principles for change.) Instead, the regime should allow flexibility so that different councils with different risk appetites can choose to limit auditor liability or prevent limited liability accordingly.
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?	<p>Local government is diverse, from small district and unitary authorities to large county and metropolitan councils. Their needs vary as does their communities' desire for more transparent accountability. The greater the transparency and breadth of external audit inspection, the greater the cost. Councils should be free to decide on the level of audit according to their local appetite and affordability.</p> <p>The preferred option is option 1 – the lightest audit regime, with councils free to supplement that with other inspection services according to their locally determined need. This will maximize efficiency whilst allowing additional work to be undertaken where there is local need or appetite for more in-depth audits.</p>
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. This should be left to individual councils to determine. Councils have been through periods of publishing annual reports and best value performance reports and these received little attention. Budget plans are already published and outturn reports and Statement of Accounts

No.	Question	Response
		are also published. Councils also publish many other plans and strategies for scrutiny. An additional requirement to publish an annual report is unnecessary for all councils and should be left to local discretion and need.
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?	It could be on an individual, discretionary basis. This will not be appropriate for all councils. Section 151 officers are required to report to full council on the robustness of estimates and reserves and the auditors' reports and internal audit annual reports will take financial resilience into account. There is no need to require an annual report.
32.	Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	As per the answer to Questions 30 and 31, annual reports should not be mandatory.
33.	What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	As per the answer to Questions 30 and 31, annual reports should not be mandatory.  CIPFA could provide guidance for councils which choose to produce Annual Reports.
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. But if an additional safeguard is required, it would be simple to add to the section 151 officer's responsibilities.
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, with the client council having the discretion to buy in extra services or use internal resources as they see fit.
36.	Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	As stated in the answers to some of the other questions, there is too much rigidity and bureaucracy in the proposals. Independence could be ensured in a more simplified manner as set out in the other answers.
37.	Do you agree that it would be sensible for the auditor	Yes

No.	Question	Response
	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?	
38.	Do you agree that we should modernise the right to object to the accounts? If not, why?	There are a number of avenues where the electorate can now raise objections, so removal of the right to object seems reasonable.
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?	As per the answer to question 38.
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?	No. The public can apply to the public body under to FOI. There is no need for extend this to the auditor.
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)?	As per the answer to Question 40, it is not appropriate to extend FOI. FOI is an additional burden to local authorities already. If any such extension was enacted, there would be impacts on audit fees if an auditor receives numerous and/or complex FOI requests which cause them to spend considerable auditor time on them.
42.	Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	Option 1 is most proportionate approach, however the district council (in two tier areas) are more appropriate for a more localized and appropriate approach and because there will already be a relationship with the district as the billing authority.
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	This should not be prescribed by government. Small bodies and their representative bodies, for example National Association of Local Councils should be free to explore and develop commissioning arrangements as they see fit. It will suit some areas and not others. District

No.	Question	Response
	additional costs could this mean for county or unitary authorities?	Councils may be more appropriate to make arrangements. So councils should have the power (not the duty) to commission examiners. In such cases the responsibility should rest with the section 151 officer. There would then be little extra cost.
44.	<p>What guidance would be required to enable county/unitary authorities to:</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>	No guidance would be needed. The section 151 officer would ensure that sound and proper practices are employed.
45.	Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	Yes, but this would be unnecessary as option 1 is adequate and proportional.
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?	Other options are unnecessary.
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?	The 4 level approach is adequate and transparent.
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	This does provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies.

No.	Question	Response
	is not the precepting 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?	Yes. However in two tier areas district councils have the greater relationship with parishes. Parish councils precept on the district councils, therefore district councils rather than county councils would be the most appropriate body.
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?	This does provide a proportionate but appropriate system of regulation for smaller bodies.