



Committee and Date

Audit Committee

16 June 2011

10.00am

Item

20

Public

RESPONSE TO CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT

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1. Summary

- 1.1 On 13 August 2010, the Government announced plans to disband the Audit Commission. This report responds to the principles contained within the consultation document issued by the Department for Communities and Local Government (DCLG), entitled the Future of Local Public Audit. The consultation paper sets out proposals for arrangements in relation to the appointment of external auditors and the role of local authority Audit Committees and ends on the 30 June 2011.

2. Recommendations

- a) The Committee is asked to consider and approve, with or without comment, the proposed consultation response to the DCLG report on the Future of Local Public Audit.
- b) That the Section 151 Officer seeks views from senior officers and considers these with those of this Committee in providing a formal response to the consultation.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The Future of Local Public Audit proposes significant changes to current practices and by responding to the consultation, members have an opportunity to help shape these to ensure the future provision of an effective external audit service.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

- 3.3 There are no direct environmental, equalities or climate change requirements or consequences of this proposal.

4. Financial Implications

There are no immediate financial implications in considering this report. The proposals, if adopted, may lead to additional costs, e.g. recruitment of independent members to Audit Committees and tendering costs for auditors.

5. Background

- 5.1 The Department for Communities and Local Government issued a consultation document on the “Future of Local Public Audit” asking for responses by the 30 June 2011.
- 5.2 With the abolition of the Audit Commission the government is looking at ways to “refocus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.”
- **localism**, i.e. local public bodies will be free to appoint their own independent external auditors from a more competitive and open market;
 - **transparency**, i.e. local public bodies will become increasingly accountable for their spending decisions to the people who ultimately provide their resources;
 - **lower audit fees**, delivering a framework which sees a reduction in the overall cost of audit to local bodies; i.e. by removing overheads charged by the Audit Commission to service the central government machine,
 - **high standards of auditing** i.e. that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.
- 5.3 The consultation sets out proposals to meet these principles, and asks a number of questions to help develop the framework before publishing legislation in draft in the autumn. Responses are required by 30 June. The key issues dealt with in the consultation paper are:-
- All local public bodies with a turnover of over £6.5m will appoint their own independent (external) auditor.
 - This appointment would be made by full council, taking into account the advice of an independently chaired audit committee, and with an opportunity for the electorate to make an input.
 - The National Audit Office would prepare audit codes of practice and prescribe the way in which auditors are to carry out their functions.
 - Registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies under the supervision of the Financial Reporting Council and its operating bodies.

- It is expected that local authorities will wish to co-operate to ensure there is wide competition for external audit contracts, and will want to work together to procure an external auditor.
- Proposals include changes to the structure of audit committees, with the chair being independent of the local authority. The vice chair would also be independent to allow for possible absence of the chair. The elected members would be non executive and non cabinet members, and the majority of the members of the committee would be independent of the authority (in support of the increased transparency agenda).
- The audit committee would have responsibility for the engagement of the external auditor and also the monitoring of its independence and quality of work. The committee would advise full council on the appropriate criteria for engaging an auditor and how these could be weighted. The committee would also be involved in the evaluation of bids.
- Other proposals are made covering failure to appoint an external auditor; rotation of audit firms; resignation and or removal of auditors and auditor liability.
- The future of public interest reports and, or disclosures.
- Arrangements for smaller bodies, including seeking support from unitary councils.

5.4 Members have been provided with access to the publication and it can be located on the DCLG website at <http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf> Responses received from members to date have been incorporated into the attached, **Appendix A**, which sets out a draft of the initial response to the consultation paper against the questions raised.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Future of Local Public Audit, Communities and Local Government Consultation</p>
<p>Cabinet Member (Portfolio Holder) Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee</p>
<p>Local Member N/A</p>
<p>Appendices Appendix A. Shropshire Council’s response to the Future of Local Public Audit, Communities and Local Government Consultation</p>

**Shropshire Council’s response to the
Future of Local Public Audit, Communities and Local Government Consultation**

1. On 13 August 2010, the Government announced plans to disband the Audit Commission. This report sets out the consultation questions contained within the document issued by the Department for Communities of Local Government (DCLG), entitled the Future of Local Public Audit alongside proposed responses. It sets out proposals for arrangements in relation to the appointment of external auditors and the role of local authority Audit Committees. Consultation ends on the 30 June 2011.

2. In responding to the consultation we wish to highlight that the structure of the questions doesn’t always allow a full response to the issues raised by the consultation and with this in mind the following aspects are included in this response:
 - The proposals focus on local government bodies, should they apply equally to Central Government?
 - The overall timetable is yet to be clarified.
 - The independent appointment of auditors has a long history and remains an essential safeguard and should not be discarded lightly, proposals are to transfer the Audit Commission to the private sector. To deliver these changes whilst upholding the principles of public audit there will be a need to recruit independent members, external auditors and introduce the knowledge and processes to do this into every local audited body alongside resourcing the National Audit Office (NAO) to skill up its team in order to deliver what is proposed. It is not clear if this is a more cost effective solution than the present arrangements, given that savings have already been delivered in terms of removing the additional non financial and VFM opinion work.
 - The proposals do not explore the issues around ensuring that the providers of internal audit are not related to the providers of the external audit and this may cause a conflict of duties.
 - A number of the questions raise further questions before they can be fully responded to, or as they are responded to and these are reflected in the attached text.
 - The Audit Commission as a non profit making body focuses all income on improving services. Proposals will see private sector firms delivering external audit, it is unclear how these proposals will represent better value for money (VFM).

	Question	Proposed 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>Yes, we agree with the design principles and consider each in turn below:</p> <ul style="list-style-type: none"> ➤ Localism and decentralisation, this should be considered and balanced against the benefits of a centralised provider who is responsive and accountable to local requirements. The

	Question	Proposed response
		<p>foreword states that, “centralised inspection and supervision have no part in localism and that they can be an unnecessary burden on front line services at a time when they must be tightening their belts to focus on service delivery”. We support and understand the localism agenda, however, changes have already been delivered by the cessation of the Comprehensive Area Assessment and Use of Resources projects, these have realised significant savings to date and refocused external audit of local government on the more traditional financial statements and VFM opinion work. It is a concern that the new proposals may cost local people more to deliver; this is explored in more detail alongside the relevant questions. Also, what is not recognised is the added value that having a central provider such as the Audit Commission brings, by observing best practice across varying public bodies, including the NHS, Fire, Police, from which it can disseminate advice and guidance to its clients, it informs local issues from a wide breadth of experience and draws on innovation and best practice. This aspect fits well with the Big Society and the support to see increased local partnership working across public service providers. This synergy presently works well and may be lost under the new proposals, unless bodies join together in tendering, reflective of the present establishment.</p> <ul style="list-style-type: none"> ➤ Transparency, the proposals in this paper build on what is already in place with audit work being easily accessible to the public allowing local people to hold councils to account for local spending decisions. ➤ Lower audit fees, these have already been achieved with the changes in external auditor requirements, i.e. removal of the Comprehensive Area Assessment and Use of Resources process from the Audit Commission work. It is felt that

	Question	Proposed response
		<p>adoption of some of the proposals in this document may increase costs; this is explored later in the document.</p> <p>➤ High standards of auditing, these are already in place, in the ministerial foreword the document recognises that, “The Audit Commission has increased the professionalism and quality of local government audit” supporting that the Audit Commission is doing a good job. It continues by stating, “it has become too focused on reporting to Central Government and supporting the previous era of target driven Government”, we suggest that the process of reporting to central government can be changed without wholesale change of present practices which delivers a proven professional and quality service and where changes already implemented, have delivered a reduction of target reporting to Central Government. What will happen to the knowledge presently acquired by the Audit Commission? The process may provide intense competition to drive down costs but with varying stability and quality in relation to the work delivered.</p> <p>We also agree that there are compelling reasons to retain the ‘Principles of Public Audit’ – wider scope, public reporting and independence – in any future local public audit regime.</p> <p>The public audit model remains relevant and the wider scope of the audit, and relationship with local electors who have a key role to play in the oversight and success of the localism agenda.</p>
2.	Do you agree that the audit probation trusts should fall within the Comptroller and Audit General’s regime?	Agreed
	Regulation of local public audit	
3.	Do you think that the National Audit Office would be best placed to produce the Code of Audit Practice and the supporting guidance?	Yes, the NAO is an option. There seems no reason to think that this would not fulfil the current principles, the proposals are consistent with the NAO present role. A representative of the NAO at the CIPFA Internal Audit Conference in May this year

	Question	Proposed response
		<p>stated that they supported the principles, but would need to build the appropriate capacity, knowledge and links with local government. These are already in place with the Audit Commission. They also outlined that they have a footprint in the local area through, for example, some of their VFM reviews, capital equipment in the NHS was provided as an example and, the proposals state that they will, “be able to identify and report on wider issues of concern about local bodies’ use of resources of common themes of interest” How is this delivering the aspiration set out in the ministerial foreword of not focusing on and reporting to Central Government? It is agreed that the Council should have a greater say in determining the scope of local VFM audit, this is achievable presently following the changes to the process to date. Greater engagement in the audit appointment process may compromise the independence of the Council from its external auditors.</p> <p>Therefore, will they be any more independent than the Audit Commission if these changes are adopted? Does this conflict with the principle of allowing choice to be locally driven if such studies are led by a body reporting to Central Government? The Audit Commission already delivers such services well, will the market be narrowed and risk losing such expertise?</p> <p>In order for the NAO to produce the Code of Audit Practice and supporting guidance they, or whoever may do this, needs clarification on the scope of the audit and the VFM role, it is noted that this is yet to be established.</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?	Yes, this would seem sensible. The conditions would need to recognise the importance of any regulated body having the necessary experience and knowledge to undertake a robust audit of a public body.
5.	Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	The Financial Reporting Council is proposed for this role, it

	Question	Proposed response
		<p>presently issues guidance to the private sector on audit committees and governance, the relevance of which will need adjusting for the public sector. Whoever does this, will have the challenge of ensuring that service provision is consistent. If the FRC can demonstrate that it has both the resources and the expertise to undertake the role and wishes to, there is no reason that it shouldn't.</p>
6.	<p>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>Assessment needs to be based on qualifications, expertise, resources, independence and objectivity. Resources should include personnel with an understanding, knowledge and experience in the public sector and how organisations are going to demonstrate an investment in understanding the sector.</p> <p>It is difficult to know how to ensure opening entry to the market without resulting in inexperienced auditors who could cost more and be "learning" on the job. Or, if fees are restricted, fail to deliver an adequate audit.</p>
7.	<p>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 characteristics and complexity of local government require auditors to invest in understanding both the sector and, the unique audit regime in order to deliver high quality audits. The Audit Commission and its providers already hold this expertise therefore there may be an additional cost as a result of this as the market builds in this area.</p> <p>The assessment should cover all aspects of the audit service provided, this may include obtaining a report on the audit firm's own internal quality control procedures and consideration of audit firms' annual transparency reports, where available. This is an annual quality report and is recognised best practice but not mandatory, the private sector was advised by the Financial Reporting Council to look at the Audit Commission's equivalent in 2008 as an example of good practice. It might be appropriate for audit committees to consider whether there might be any benefit</p>

	Question	Proposed response
		in using a selection of firms to encourage competition. However, this would involve additional costs and contract management time.
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?	Due to the public interest and in order to comply with the design principles for these proposals of transparency and high standards of auditing we propose that all bodies should constitute a public interest entity and this should not be defined based on financial size, employee numbers or other such categories.
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>Yes, we agree that all local public bodies could be categorised as 'public interest entities.'</p> <p>A mechanism for ensuring consistency across all supervisory bodies for local public audit is required and this can only be done by an overall regulator taking this role. If a threshold is required we would suggest that provided in the document for larger and smaller authorities to provide some consistency of approach. However, we note that these proposals add an additional layer of bureaucracy to the present process and as such contribute to the principle of transparency but not lower audit fees.</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?	It would be logical to adopt the same criteria and processes from the companies sector to the public sector. We would propose that the regulator should ensure a consistency of approach across public bodies in the event of investigations and disciplinary cases and act as an arbitrator if an issue cannot be managed further down the process.
	Commissioning local public audit services	
11.	Do you think the arrangements we set out are sufficiently flexible to allow councils to co-operate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?	<p>Yes. However, joint procurement is already delivered through the Audit Commission on a much larger basis and these economies of scale are unlikely to be matched at this lower level.</p> <p>Joint procurement of the external auditors for a number of audit committees will not realise many efficiencies, since specifications will need to allow for all bodies serviced and individual bodies will need to manage their aspect of the contract. Joint</p>

	Question	Proposed response
		<p>commissioning may only be of considerable benefit where there is a single audit committee over a number of bodies. However, the role of the Audit Committee does not lend itself to servicing more than one organisation. Joining together of procurement may favour the larger providers and therefore make it difficult to encourage new or smaller providers to the market place and may lead to higher external audit fees.</p> <p>Procurement processes are time and cost heavy commitments that will be new to the public bodies in relation to this area.</p>
12.	<p>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>Whilst we agree that the committee should have independent members we note the following in relation to the proposed criteria:</p> <ul style="list-style-type: none"> ➤ “he or she has not been a member nor an officer of the local authority/ or public body within five years before the date of the appointment” and “is not a member nor officer of that or any other relevant authority”. This ensures independence but risks appointment of members that may be out of touch and, this could exclude people who work at other public bodies who have valid knowledge and experience that they can bring to the meeting. Such members may have no knowledge of the sector or ability to challenge internal or external audit. Proposals could instead exclude any persons with connections or relations with the specific public body, or those related to it, that they are applying for audit committee membership to and the lapsed time if you have worked for that body could perhaps be reduced to three years. ➤ “is not a relative or close friend of a member or an officer of the body/ authority”, how are close friends or relatives to be defined? The process will need to rely on a declaration from the individual. It is agreed that they should be excluded if they have connections and, or relations with a specific public body

	Question	Proposed response
		<p>or its close public body partners.</p> <ul style="list-style-type: none"> ➤ “Has been approved by a majority of the members of the council”, this increases the time of the recruitment process and associated costs, we would propose that the remaining audit committee members could be involved in the process and recommend to the Executive/ Cabinet their preferred candidate for approval, or is it the intention the appointment is referred to Council for approval? ➤ “advertised in at least one newspaper distributed in the local area”, this may not be the most effective way of circulating notice of the position and therefore the guidance should not stipulate this method, instead it is proposed that the most effective way of advertising the post should be adopted – for example, this may be through electronic means, newspapers or other advertising media ➤ The person applying for the role should not be linked to any potential contractors that may be applying for internal or external audit work. ➤ An independent appointments body, with local authority representation, would bring the ‘best of both worlds’ in terms of maximising independence and ensuring greater local authority involvement in the appointment process. An appointments body, which could operate nationally or regionally, would also have the benefit of reducing the procurement burden on individual local authorities (and auditors), ensuring all authorities have an appointed auditor, and enabling greater economies of scale and therefore value for money in terms of cost, quality and continued investment in the sector – this reflects a position similar to the present

	Question	Proposed response
		<p>Audit Commission process.</p> <ul style="list-style-type: none"> ➤ If the recruitment of independent members is mandatory and there are difficulties with recruitment, what will happen if a local authority cannot recruit such members? Especially given that all public bodies will be going out at the same time for such members.
13.	<p>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>	<ul style="list-style-type: none"> ➤ The government's proposals for audit committees to have independent members will go some way to safeguarding auditors' independence, but it is too early to judge if the safeguards will be sufficient. ➤ A benefit but also a challenge for independent members is that they act in isolation without the fuller understanding of the impact on wider council services, because unlike elected members they will not be privy to the wider council business. ➤ They will provide and support elected members bringing with them a different perspective and this will be of benefit. ➤ This Council challenges why local elected members are not considered effective as Chairs and Vice Chairs of Audit committees as independent members? Independent members need to understand the business of the Council, the importance of confidence in public propriety, they will not have access to other issues and papers circulated at the Council – there are a number of high profile examples in the private sector where independent members did not avert a crisis, e.g. banking sector, and a lack in knowledge of the sector independent members are working in may lead to comparable issues in the public sector. ➤ FOI requirements and the transparency agenda, all add to the

	Question	Proposed response
		<p>independent challenge of the public sector that is over and above that of the private sector.</p> <ul style="list-style-type: none"> ➤ It is desirable for at least one independent committee member to have recent and relevant financial experience; they should have a professional qualification from one of the professional accountancy bodies. The need for a degree of financial literacy among the other members may vary, but experience of corporate and financial matters should be a requirement. ➤ Independence is achieved through the current Audit Commission model.
14.	Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	<ul style="list-style-type: none"> ➤ This will be a challenge in terms of volume of suitable candidates in the market, especially as the changes will impact on all public bodies at the same time. The need for the correct calibre of the individual to understand public accountability, technical issues and added value. ➤ Independent members do act on Audit Committees now, some of which are re-numerated and some are not. The market may need to pay increased amounts of remuneration; initially to attract individuals and ongoing as the market develops and individuals expectations of remuneration increases. ➤ The level of remuneration is difficult to estimate and will be dependent on the maturity and pressures on the market place – it is also no guarantee that the right person is attracted. ➤ In addition there will be a cost of training independent members and existing members as to the new proposals which will distract the council from other service activities

	Question	Proposed response
		<ul style="list-style-type: none"> ➤ An induction programme will need to be provided to independent members, maybe at a more detailed level than that for current members, especially in respect of an overview of council business, identifying the main business, financial dynamics and risks. It could also include meeting some of the officers and understanding their roles. ➤ The other thing that cannot be predicted is turnover of independent members and should the guidance dictate how long a member should serve to ensure the roles continued independence? ➤ Sharing independent members with other authorities may be an option and make the task easier in terms of recruitment, retention and shared costs. ➤ Independent members may need indemnifying and the cost of this will need covering.
15.	<p>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>Whilst the proposals go some way to this, the move to the audited body appointing their own external auditor cannot be as independent as the auditor being appointed for them, or as cost effective.</p> <p>Introducing safeguards, such as full council approval and dismissal protection will contribute towards the independence but, it is hard to see how the proposed safeguards will not add to the cost and bureaucracy of the process, which goes against one of the principles for change.</p> <p>The Council agrees with independent members having a role on the audit committee however, to propose that these should be the Chair and Vice Chair and represent the majority of the audit</p>

	Question	Proposed response
		<p>committee raises questions of the level of benefit gained over that of elected members, who remain well placed to reflect the publics, electorates' views. Interestingly the NAO equivalent to an audit committee, the Committee of Public Accounts, is chaired by a member of the opposition. It could therefore be concluded that if this model is appropriate for Central Government it could be good for local government – and on this basis the proposal to chair and vice chair an audit committee with an independent member is challenged.</p> <p>Option 2 would reflect the present audit committee functions with some additional responsibilities. However, the more complex and widespread the committee's duties become, the more challenging it will be to appoint to and fund their operation.</p> <p>Best practice would support the status quo, where the external auditor is appointed independently of the audited body, the body being consulted on the outcome only.</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>An external auditor should provide independent examination of the accounts, document and records of a public body and as such, does not need to be appointed locally and is more independent if they are not. The audit committee is elected from local people by local people and any independent member should also be locally based, to this effect the community continues to be represented, whilst the position of external auditor is not compromised. In addition “armchair” auditors add a local challenge to the organisation with an increased knowledge of the local area, able to review increasing amounts of information being provided through the transparency agenda. Therefore, neither option proposed truly reflects what would strike the best balance.</p>
17.	Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be	<p>Yes, an Audit Committee should be involved in approving the selection of the external auditor.</p>

	Question	Proposed response
	specified in legislation?	
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>This aspect is currently being undertaken effectively by the Audit Commission. Would the introduction of a statutory code of practice or guidance go against the Government's policy of reducing unnecessary burdens and legislation? Although if not set out in statute, it is not clear how this would be consistently applied.</p> <p>If the NAO is producing codes and guidance, would they be best to provide this role?</p>
19.	Is this a proportionate approach to public involvement in the selection and work of auditors?	<p>Whilst an additional freedom for the public, this is not considered a proportionate approach to public involvement and for reasons of auditor independence does not appear appropriate.</p> <p>It is proposed that a month before publication of the invitation to tender, a list of firms expressing an interest be published on the web, "the public would then be able to make representations to the audited body's audit committee," about any of the firms interested in tendering. On what basis would these representations be? Of what value and could this lead to decisions being made unfairly, or with a bias? Any recruitment or tendering process is based on a methodical, evidential and fair basis – it is not clear how this could be interpreted in that way?</p>
20.	How can this process be adapted for bodies without elected members?	Not applicable
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?	Both options appear pragmatic but have the potential for additional costs. Option one is where in the event that the public body could not appoint an auditor, the Secretary of State would direct them to – but there may be valid reasons why an auditor is not appointed. Option two provides that the Secretary of State will make the auditor appointment and the local body would have to cover the cost of this and could be subject to a sanction of

	Question	Proposed response
		<p>failing to make the appointment. The latter conflicts with the proposals set out in this document.</p> <p>These options reflect that it may not be possible to appoint an auditor, given this and that option two partial reflects present practices; that of an auditor being appointed and the costs recharged to the authority, does this not challenge the proposed change of process?</p> <p>Consideration needs to be given as to the reasons why an appointment has not been made. Is the market not mature enough in an area? Is it flooded? Are the candidates not suitable? Only then can appropriate sanctions be delivered.</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?	Initially they should only be under a duty to inform if they have failed to appoint and remedial action is therefore required. The requirement to inform if an appointment has been made is considered excessive, additional bureaucracy and cost.
23.	If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	If the Secretary of State is to undertake any remedial action, then we would propose that they are informed of any failure to appoint an auditor.
24.	Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	Yes, we would go further and propose that practices should be reflective of private sector partners, where appointments are five years with a two year optional extension approved by the audit committee. This would appear a sound proposal with no appointment to exceed 7 years.
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?	The reappointment of the external auditor on an annual basis through full council appears bureaucratic. We would agree that any significant issues should be reported to Full Council as they arise. Full Council should be involved if the contract is extended as the initial stage comes to an end. The annual review should be conducted by the Audit Committee. Currently an annual review of internal audit is considered by Audit Committee and this process could be adopted for external audit.

	Question	Proposed response
		Ethical standards are embedded in the deliver of services through the current Audit Commission and these have been established over time through practices and experiences. These will need to be learnt by the private sector and may therefore not be fully in place from the start.
26.	Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?	Yes, we agree at the end of the contract a different auditor should be recruited. This will be dependent on the market and how it has developed.
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?	<p>Yes, however it appears potentially costly and drawn out.</p> <p>The current process safeguards the auditor from inappropriate removal and resignation through the Audit Commission's involvement. The current practice allows for a replacement auditor to be sourced efficiently and effectively.</p> <p>The new proposals appear sensible, provide safeguards and allow time for serious consideration of the issues. In practical terms there will be a gap between the auditor resigning and a new appointment, dictated by the resignation or removal and proposed procurement process and it is assumed that the public body would pick up the re-tender costs when the reason for resignation or removal may not be of their making.</p> <p>In summary, whilst the proposal safeguards the auditor it is not as efficient as the present external audit provision.</p>
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 removal of the Audit Commission's safeguards that currently mitigate the professional risks the audit firms face that are inherent in the wider statutory responsibilities of local public auditors in future may be priced into fees. Any proposal should ensure that there is no increase in fees to a public body, i.e. resulting in an increase in the external audit fee

	Question	Proposed response
	Scope of audit and the work of audit	
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>In respect of costs generally, once the Commission is abolished, local public bodies will not have to pay the element of the audit fee that is levied to fund the Commission's core statutory functions such as audit regulation and national studies. In 2011/12 this amounts to around £11 million or 7 per cent of audit fees. But, it is not clear yet if the proposals will introduce extra costs, which could lead to increases in audit fees for many bodies. These extra costs could be significant and could arise from:</p> <ul style="list-style-type: none"> ➤ Removing the safeguards that currently mitigate the professional risks the audit firms face. These are inherent in the wider statutory responsibilities of local public auditors. In future these risks will be priced into fees. ➤ The loss of the current economies of scale from bulk purchasing, which are currently passed back to local bodies. ➤ Price premiums for some bodies considered unattractive on commercial grounds because they are too risky or are geographically remote. ➤ New compliance costs for audit firms, to fund the new regulatory framework. Firms will also incur additional costs of preparing and submitting multiple bids. ➤ Additional costs for councils, from establishing the proposed new independent audit committees. Unitary councils will also have the cost of appointing independent examiners to, and regulating parish and smaller public bodies/ councils within their areas. ➤ Potential changes to the structure of the market which may reduce competition, this is likely with any collaboration and therefore may impact on audit fees. Extra charges, which could be significant would arise from pricing in the legal risks audit firms face when dealing with local bodies; the loss of economies of scale from bulk purchasing; premiums levied on

	Question	Proposed response
		<p>bodies deemed commercially unattractive to audit firms; compliance to fund a new regulatory framework; costs incurred by councils to set up the proposed new independent audit committees; and potential changes to the structure of the market, which might reduce competition and force up fees.</p> <ul style="list-style-type: none"> ➤ Investment required for the NAO to build up the links with the local government sector. ➤ It is not clear yet who will deliver grant certification, operate the NFI and the auditor function of reporting on the Whole of Government Accounts, until this is known the financial impact of any proposed changes cannot be known in full and therefore considered. By removing this from the Audit Commission synergies and knowledge of systems and processes at local levels and across audited bodies may be lost. <p>With this backdrop the Council has considered the options proposed.</p> <p>Option one would reduce audit work but is considered too basic and does not provide a VFM opinion which is important for the public. If this option was adopted the government would need to explore alternative ways to ensure public bodies demonstrate VMF in a way that did not require formal auditing.</p> <p>Both options three and four whilst providing additional information to citizens, reflect the reintroduction of a number of aspects of the Comprehensive Area Assessment process and Use of Resources that has been one of the aspects the present Government removed when coming to power. Both would involve additional costs in terms of resources and cash allocation and undo the savings already achieved in respect of external audit costs by the</p>

	Question	Proposed response
		<p>Government, especially option three. As stated in the proposals, option three would require greater workloads from the auditor and would prove difficult to reach a robust conclusion on value for money, regularity and propriety and therefore this option is discounted.</p> <p>Option four if managed well, could deliver outcome and performance information alongside financial costs in an easily digestible fashion, but this would need to be at a high level of detail to interest the majority of the public and, is there evidence that they want the detail in this format? Shareholders of a company have a personal financial interest; do all the public have such a personal interest in all that a public body does? An annual report may not be particularly effective in reaching the public directly if past experience is a guide and there will be a need to maintain and prepare meaningful comparative data.</p> <p>Option two is the preferred one currently, maintaining the current scope of the audit given the austere times the council finds itself in. It is felt that this along with the transparency agenda will provide information for local citizens to see how public money is spent.</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?	Please see response to 29.
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?	Please see response to 29.
32.	Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	<p>These are not defined in the consultation and can mean different things in relation to audit.</p> <p>Without the benefit of definitions "reasonable" would be the preferred assurance description, "limited" suggests there are</p>

	Question	Proposed response
		identified issues and there may not be.
33.	What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	None - please see response to 29. This question supports that the process would require additional levels of governance which could lead to additional costs if this option was adopted.
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?	This will need to be tested, this is something that needs to be managed in the initial procurement process where possible to build in such safeguards for the audited body.
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?	The paper provides no evidence as to how frequently the Audit Commission currently permits its auditors to undertake such work. To encourage a genuinely open market and to maintain the principle of independence, auditors should not be able to provide non audit work. If an external auditor is not involved with any of the services delivered by the audited body in any shape, it is truly independent. Non audit work could be sourced through normal procurement processes.
36.	Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	Similar safeguards to those presently in place need to be confirmed, such as not completing work for more than £30k or 20 per cent of the actual audit fee whichever is the higher. Safeguards need to be well thought out and consistently applied given that the proposals recognise that their introduction could reduce the number of auditors eligible for appointment to an audited body, which could impact on competition, the lack of safeguards could also compromise independence. An auditor should not be able to provide both internal and external audit services to the same body.
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	This seems appropriate, but this is not as robust and independently managed as it is through the present system under the Audit Commission. Whilst it is proposed that the independent member should be the one to receive these, this leads to

	Question	Proposed response
	placed to undertake this role?	administrative support issues.
38.	Do you agree that we should modernise the right to object to the accounts? If not, why?	The change appears sensible; there is a need to ensure local elector complaints are dealt with effectively and proportionately in relation to the materiality of the question.
39.	Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?	Yes
40.	Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?	Yes, however, this may create an additional cost under the new proposals which will be passed on to the audited body in the fees. What is not clear is how this could be transparently monitored and accounted for?
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)?	There will be an increase in fees as a result of this. Processes and resources for the administration and management of this will need to be established; these should form part of the tender documents and may limit the attractiveness of the contract.
	Arrangements for smaller bodies	
42.	Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	<p>Option one appears to provide the most proportionate approach in respect of achieving reduced costs in procuring the service but option two provides local selection. Fees for smaller bodies, even if commissioned through the Unitary authority are likely to increase, since it is likely that market providers are interested in the larger contracts only, there would also be the cost of the commissioning exercise.</p> <p>In commissioning these services the Unitary Council fees could be seen to increase to offset the impact of the smaller authorities on the providers services.</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	<p>This can be done by the Council. It should be delegated to the s151 Officer to ensure that a reduced process approach is maintained.</p> <p>In respect of the unitary council the impact may be felt on the contract prices, as mentioned above and also the number of</p>

	Question	Proposed response
	additional costs could this mean for county or unitary authorities?	auditors attracted to bid may be reduced with the contract covering smaller as well as the larger organisations. Option two allows for smaller bodies to use the unitary councils audit committee and this would have training and committee servicing resource implications that would need to be funded. Provision of external audit services by the unitary to smaller authorities would need to be funded in full. These costs are unknown but the aim would be to offset any resources required by income received from these bodies. The difficulty being that demand is focused mainly at year end with the smaller bodies.
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>	<p>Guidance needs to be at least what is available to the auditors presently</p> <p>It is proposed that guidance should be produced by the NAO to ensure a consistent approach with the rest of these proposals.</p>
45.	Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	<p>This would depend on the model used and safeguards adopted. Independence in respect of using their own audit committees would be subject to the same observations identified in relation to that established in the responses to questions above in respect of larger body proposals. It would also depend on how many smaller bodies met to select the auditor, a minimum number should be proposed.</p> <p>Independence would be more readily demonstrated using the unitary council's audit committee.</p>
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?	None identified
47.	Is the four-level approach for the scope of the	No

	Question	Proposed response
	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?	
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?	It appears to provide a proportionate approach.
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?	It appears to be the most appropriate way to deal with the issues raised.
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?	It is likely there will be real market competition for the bigger, more commercially attractive authorities, which may drive down prices for them. But, there is a risk that the new arrangements will reduce rather than increase competition and this could impact on the smaller authorities