

Response to future of local audit consultation

Question	X-ref to para:	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?	1.17-1.19	Overall we feel that the balance is right on the independence of the auditor but is wrong in terms of localism. We feel that much of the paper is overly prescriptive and does not give sufficient scope for innovation locally and therefore is at odds with the Government's commitments to give greater local discretion in decision making. This particularly applies to the role of independent members on the audit committee-a major strength of how our audit committee works is the diversity of membership and the experience and knowledge of the organisation which the members bring from other activities they are involved in across the Council. Scrutiny of the Council's financial accounts is a tiny part of the overall governance arrangements which the audit committee oversees.
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?	1.21-1.24	Yes
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?	2.3-2.6	In the absence of the Audit Commission the National Audit Office should be the preferred regulator for specifying the Code of Audit Practice for local government.
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?	2.12-2.19	Yes
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	2.12-2.19	It would be logical for the body responsible for maintaining and reviewing the register would be the same as that producing the Code of Audit Practice – ie the National Audit Office. However, it is recognised that

Question	X-ref to para:	Response
		this would require a duplication of systems and process that already exist within the Financial Reporting Council. If the FRC can resource the required role at limited additional costs, and is willing to take it on, then we would have no objections to this suggestion.
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?	2.18-2.19	It should be left to the supervisory bodies and the overall statutory body to specify the requirements for entry into the market. However, if an audit provider believes that it can deliver an audit of the standard required by the Code and meets the registration needs, there shouldn't be any further barriers based purely on prior experience. We would like to see smaller local firms being able to enter the market.
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?	2.18-2.19	As above – if a firm is deemed sufficiently competent to be registered and professionally can determine that they can deliver an audit within the Code there should be no additional requirements.
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?	2.22-2.25	The Council's view is that all principal local authorities (districts, counties, unitaries and metropolitan councils) should be classed as "public interest entities" and the auditors of those bodies should be regulated by the Financial Reporting Council on the same basis as public interest entities in the private sector.
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?	2.22-2.25	See response to Q8.
10. What should the role of the regulator be in relation	2.22-2.25	See responses to Q8.

Question	X-ref to para:	Response
to any local bodies treated in a manner similar to public interest entities?		
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?	3.1-3.7	<p>The Council supports collaborative procurement of external auditors. Each Council would need a stand alone legally binding agreement with the appointed auditor.</p> <p>We do not support the concept of joint audit committees as this would diminish the governance of the organisation.</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?	3.8-3.10	<p>We view the proposals for compulsory non-elected full members on audit committees as an unnecessary step. The Council believes insufficient evidence has been gathered about the role and effectiveness of audit committees currently within local government. However, the council supports the notion that non-elected members may be able to bring a measure of independence and experience that elected members may not have. Currently some councils use their discretion to appoint non-elected representatives as either full or co-opted members of audit committees. Our members believe this flexibility should be retained- but that the decision should be left to local discretion. We would like to reinforce that elected members are publicly accountable for the overall governance of the organisation.</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?	3.8-3.10	<p>The council believes it is necessary for non-elected representatives serving on audit committees to have relevant expertise (even following the Council's preference for co-option). It is most likely this will include financial skills and experience, but could also include other skills and experience relevant to the full scope of an audit committee's work. It is also important</p>

Question	X-ref to para:	Response
		to remember that the accounting requirements for local authorities are very different than in the public sector and that is reflected in the separate CIPFA qualification as being the most relevant in the public sector.
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	3.8-3.10	The Council believes that allowances should be a matter for consideration by the Council's independent remuneration panel-again leave the decision at local discretion.
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?	3.11-3.25	<p>As covered in the Council's responses to Questions 1 and 12 the Council believes the Government's preference for a majority of non-elected members of audit committees is inconsistent with that principle. This is considered a step too far. In members' view the justification lacks any appreciation for the merits and performance of local authorities' audit committees as currently constituted.</p> <p>This council welcomes making audit committees a compulsory requirement for councils, but strongly believes that their role and make up should be determined locally.</p> <p>We do not support any of the options set out in 3.9.</p> <p>The Council does not believe that its preference for constituting audit committees will weaken the 'independence' of the relationship between the external auditor and the audited body. That is not our experience so far and we see no reason why this should be affected after decentralising external audit.</p>

Question	X-ref to para:	Response
		The appointment of the auditor would be achieved through a recommendation of the audit committee to the Full Council.
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?	3.11-3.25	The Council supports Option 1. We support the ability for councils to use their discretion to widen the role after considering how aspects of assurance work fit with other parts of a council's governance framework (for example the role of overview and scrutiny).
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	3.11-3.25	The roles in relation to external audit are appropriate, but it must be recognised that external audit is only a small subset of the normal work of the audit committee, and corporate governance, risk management and internal control (including Internal Audit) should also be included. The minimum roles required should be specified in guidance that can be referred to in legislation, which provides greater responsiveness to emerging issues. Part of the external audit remit should be to comment on the compliance of the bodies arrangements for establishing and maintaining an audit committee.
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?	3.11-3.25	It would greatly aid local authorities to be able to demonstrate that the appointment of an external auditor is in accordance with independent guidance. This could be included in the Code of Audit practice to be maintained by the NAO.
19. Is this a proportionate approach to public involvement in the selection and work of auditors?	3.28-3.29	Agreed, with minor modification, although it is likely that this is fulfilling a perceived need that may not actually be there.  It is suggested that public representation to an audit

Question	X-ref to para:	Response
		committee would not be “at any time”, as these committees only meet 4-6 times per year. Representations would need to be considered at the meeting where the appointment of an auditor is recommended to Council.
20. How can this process be adapted for bodies without elected members?	3.30-3.31	No comment.
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?	3.34-3.36	Option 2 is supported by the Council. The S151 Officer, through an amendment to the Accounts and Audit Regulations, should have the responsibility to ensure that the Council makes the appointment and that this is made by Full Council and reported accordingly.
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?	3.34-3.36	See Q 21. Positive reporting of the appointment, including its duration, is the preferred option.
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	3.34-3.36	The relevant Government department-for local authorities the CLG.
24. Should any firm’s term of appointment be limited to a maximum of two consecutive five-year periods?	3.40-3.47	No the Council does not agree with the mandatory rotation of audit firms after 2 consecutive 5 year periods. Councils should have local discretion, but the Council would expect the audit firm to regularly change the lead partner responsible for the relationship with the Council.
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?	3.40-3.47	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	3.40-3.47	No see response to Q24.

Question	X-ref to para:	Response
correct degree of independence?		
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?	3.48-3.62	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?	3.63-3.66	Yes
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?	4.1-4.25	A major reason for the need to change the current audit regime is that it is far too costly for local authorities, particular district councils who pay disproportionately more compared with upper tier authorities. We therefore support the lowest cost option which is Option 1 but with local discretion to buy additional services, such as value for money, if the Council prioritises this compared with other calls on the overall budget of the Council.
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	4.1-4.25	Yes. The Annual report can be a key vehicle in communicating with local stakeholders, explaining the Council's plans for the year ahead and explaining how well the Council has performed against previous years plans. It allows the Council to explain the reasons for underperformance, and also potentially why some difficult choices have to be made. It supports the localism and transparency programmes and is part of the mechanism for local accountability.
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	4.1-4.26	Yes – one document that summarises all aspects of an organisations performance would be very useful in engaging the local community. It should also

Question	X-ref to para:	Response
local public bodies?		incorporate the Annual Governance Statement.
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	4.1-4.26	The assurance provided need only be limited to mitigate against audit fee increases.
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	4.1-4.26	This should be produced by the CLG for local authorities.
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?	4.26-4.34	Yes
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?	4.35-4.42	Yes
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	4.35-4.42	The NAO should issue guidance similar to that provided by the Audit Commission now.
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?	4.43-4.47	Yes
38. Do you agree that we should modernise the right to object to the accounts? If not, why?	4.48-4.57	Yes – the current system does not provide for effective accountability and is often only used as a means for vexatious complainants to challenge the Council.
<b>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?</b>	4.51-4.57	The proposals are suitable in most respects. It should be written either into the Code of Audit Practice or legislation that the external auditor must consider relevant representations from the public, although this should be a continual duty and not one linked so strongly

Question	X-ref to para:	Response
		to the annual accounts, as auditors should have other duties as previously agreed. The decision not to respond to representations should not be reported to the audit committee as part of the annual governance report / management letter, but should not be subject to judicial review as these costs are likely to be borne by the Council.
<p><b>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?</b></p>	4.51-4.57	<p>The audit can be brought into the remit of the FOI Act if certain safeguards are imposed:  commercial sensitivity exemptions remain  The auditor can rely on disclosure that should be made or has been made by the audited body  The auditor can also rely on the exemptions used by the audited body not to disclose information  No disclosure is required for “live” audits. Only once the audit has been formally concluded and reported to the Audit Committee should disclosure be permitted.</p>
<p><b>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)?</b></p>	4.55-4.57	<p>See response to Q40. The impact on the auditor / auditee relationship will be minimal if safeguards are put in place that prevent external auditor being used as a means of obtaining information about the audited body under the FOI Act. The auditor must also be able to present the outcome of the audit to the audited body before any disclosure. Without these safeguards the audit will inevitably become less effective and slower. There will also remain a small inherent risk that the auditor / auditee relationship becomes less open and honest.  The costs of responding to FOI requests should be borne by the audit supplier as a cost of business and, although this will be passed on to the audited bodies, the</p>

Question	X-ref to para:	Response
		increase in fees should be minimal.
<b>42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?</b>	5.13-5.21	<p>Option 1 and the cost of an audit committee for a small parish council is not proportionate. The current costs to a parish council are in the region of £150 and we should be doing nothing to increase this.</p>
<b>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?</b>	5.13-5.21	<p>The Council does not agree that County Councils are best placed to perform this role, and if they did it could be burdensome given the numbers of parish councils here in Kent (300+). District Councils should be considered as commissioners given their likely greater contact with and awareness of local parish councils' work and circumstances. But we see parish councils themselves having involvement with the commissioning process, for parish councils may wish to propose suitable people or firms for consideration. Indeed and in answer to the point raised in Question 45 the council believes it could be appropriate for parish councils who wish to perform the commissioning role to do so and use a District Council's audit committee for this purpose.</p> <p>The Council believes that District Councils' S151 officers could perform the role acting on advice from the audit committee.</p> <p>There are likely to be added costs associated with placing of advertisements and relative to the independent examiner costs these could be significant.</p>
<b>44. What guidance would be required to enable county/unitary authorities to: a.) Appoint independent examiners for the smaller bodies in their areas?</b>	5.13-5.21	<p>The Council believes the NAO should produce and maintain guidance, though much of this is in place as reflected in the consultation paper. The annual return</p>

Question	X-ref to para:	Response
<p><b>b.) Outline the annual return requirements for independent examiners? Who should produce and maintain this guidance?</b></p>		<p>requirements could mirror the arrangements currently in place from the Audit Commission.</p>
<p><b>45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?</b></p>	<p>5.13-5.21</p>	<p>This Council believes that parishes that wish to appoint an independent examiner should have the ability to do so, but be expected to use a District Council's audit committee to preserve oversight. There are likely to be some smaller parish councils that may not have the capacity or experience to carry out this role and in these cases may look to a District Council for advice and to make an appointment on their behalf. The Council believes that only some parish councils would have the capacity and scale of work to create and justify an audit committee.</p>
<p><b>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?</b></p>	<p>5.13-5.21</p>	<p>The District Council and County Council internal audit teams could have a role to play.</p>
<p><b>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?</b></p>	<p>5.13-5.21</p>	<p>No, it is not too complex. Again the council would suggest that District Councils are involved in commissioning rather than County Councils in two-tier areas.</p>
<p><b>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</b></p>	<p>5.22</p>	<p>The Council believes that matters of public interest about smaller public bodies should be raised with the audited body and a District Council's audit committee. The District Council's audit committee could decide whether to appoint an auditor to investigate the matter, and have</p>

Question	X-ref to para:	Response
<b>precepting authority?</b>		the ability to decide any suitable conditions or sanctions for the smaller local public body.
<b>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?</b>	5.23-5.24	Yes subject to the District Council replacing the County Council.
<b>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?</b>	5.25-5.26	Yes subject to the District Council replacing the County Council.