

FUTURE OF LOCAL PUBLIC AUDIT

CONSULTATION QUESTIONS AND PROPOSED RESPONSES

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?

The Council believes that the correct design principles (localism and decentralisation, transparency, lower audit fees and higher standards of auditing) have been identified and that the proposals in the consultation paper meet these principles. In view of the current financial climate the Council's view is that lower audit fees should be the overriding design principle.

2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

The Council does not have a view on the future audit of probation trusts.

3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Given its role in providing Parliament with assurance on public spending, the Council agrees that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance.

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?

In the Council's view the system for approving and controlling statutory auditors under the Companies Act 2006 works well and sees no reason to adopt a different approach for statutory local public auditors.

5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

The Council believes that the Financial Reporting Council is best placed to act as regulator of local public audit work, as establishing a separate body from the one that regulates Companies Act audits would lead to a duplication of work. Responsibility for maintaining and reviewing the register of statutory local public auditors should rest with the recognised supervisory bodies (essentially the professional accountancy bodies) as they already fulfil a similar role for Companies Act audits.

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?

The Council's view is that in order to achieve lower audit fees competition between a wide range of audit firms is essential. At present the Audit Commission contracts only 30% of its audit work to five private firms. This is considered to be unduly restrictive and as such the Council believes that public audit experience is not essential. However, all firms intending to enter the market should be able to demonstrate that they have competent audit resources, capable of undertaking public sector audits, regardless of the sector in which they have previously worked.

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?

Based on our response to the previous question the Council believes that no additional criteria are required.

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?

The Council does not believe it is necessary to define a public interest entity for the purposes of local audit regulation. Whilst Council's are significant because of the nature of their business and their number of employees, their impact and influence is largely contained within a specific geographical area. Adding a further layer of oversight also has the potential to increase costs which would, no doubt, be passed on to the audited bodies.

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?

As the costs of additional regulation would be passed onto audit firms and reflected in fees, the Council's view is that local public bodies should not be categorised as public interest entities.

10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Our response to the previous question indicates that we do not see a role for the regulator.

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?

Collaboration with other public bodies can improve efficiency and reduce costs and as such the Council supports the proposed legislation that provides for both joint procurement of auditors and joint audit committees.

12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

The Council supports the criteria identified to ensure the quality of independent members.

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?

Ideally, independent members should have financial expertise. However, it is necessary to recognise the difficulties that councils encounter recruiting independent members and financial expertise is, therefore, desirable rather than essential.

14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

The Council believes sourcing suitable independent members could be problematic and whilst providing remuneration may attract further candidates this is not affordable in the current financial climate.

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?

The proposals do provide the necessary safeguards and of the options available the Council's preference is that only the Chair and a minority of members are independent of the local public body. If the independent members disagree with the audit committee's decisions this should be recorded in the committee's minutes. Full Council should be made aware of the reasons for independent members dissenting before accepting (or otherwise) the audit committee's recommendations.

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?

The Council supports a localist approach and therefore takes the view that the legislation should take a minimalist approach when specifying the role of the audit committee.

17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

These are appropriate roles and responsibilities for the Audit Committee

but in line with our response to the previous question these should be left to local discretion with the legislation specifying as little as possible.

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?

The appointment of an auditor is not dissimilar to the procurement of other services, which Councils undertake on a regular basis. The existing public procurement rules are more than adequate and as such the Council does not believe a statutory code of practice or guidance is necessary for the appointment of an auditor, as this is likely to introduce inefficiencies and additional costs into the process..

19. Is this a proportionate approach to public involvement in the selection and work of auditors?

The Council does not believe the involvement of the public in the appointment of an auditor is either necessary or adds value. There are sufficient mechanisms in place within existing legislation if members of the public have concerns about the selection and work of auditors.

20. How can this process be adapted for bodies without elected members?

The Council does not have a view on this.

21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

The Council believes that option 1 whereby the Secretary of State would be able to direct the local public body to appoint an auditor provides a sufficient safeguard. Sanctions should be introduced for local public bodies who fail to comply with the Secretary of State's direction.

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?

There should be no requirement to inform a body when an auditor has been appointed. It should however be the duty of either the Monitoring Officer or the Chief Financial Officer to notify the Secretary of State should the local public body fail to appoint an auditor by the required date.

23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

See answer to previous question. Only the Secretary of State need be notified in the event of failure to appoint an auditor by the required date.

24. Should any firm's term of appointment be limited to a maximum of

two consecutive five-year periods?

The Council agrees that the term of appointment should be limited to a maximum of two consecutive five-year periods.

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 Council's view is that existing ethical safeguards are adequate and that no additional safeguards are required for the audit of public bodies.

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?

The Council agrees that the proposals strike the correct balance.

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?

The Council thinks the proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality and, therefore, does not believe that any additional safeguards are required.

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 Council does not see the need to differentiate between the Companies sector and the public sector and therefore provisions should be put in place to prevent auditors for seeking to limit their liability in an unreasonable way. A balance must, however, be struck as there is a direct relationship between the extent of an auditor's liability and their fees.

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?

The Council's view is that option 1 is preferable on the grounds that this provides the necessary audit assurance at least cost.

30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

There should be no mandatory requirement to publish an annual report, which should be a matter of local choice.

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?

If a Council publishes an annual report it will have the option to include these matters within the body of the report if it chooses to do so.

32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

The Council believes that, as at present, the auditor need only provide assurance on the financial statements. If a Council also wishes to seek assurance on its annual report this should be a matter of local choice. The cost of this work should be met by the body opting to have the auditor provide assurance on its annual report.

33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

The Council does not believe any guidance is necessary.

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?

The proposed safeguards appear adequate.

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?

It would not be unreasonable for auditors to provide additional services if these are not significant and the nature and cost of the services provided is transparent. The auditor must be seen to be independent of the local public body.

36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Existing ethical standards coupled with the permission of the audit committee would seem to strike the right balance for auditors wishing to provide additional services.

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?

The designation of the auditor and the audit committee as prescribed persons under the Act appears sensible. To do otherwise would create an additional

role and potentially increase costs.

38. Do you agree that we should modernise the right to object to the accounts? If not, why?

The Council agrees with the proposal to modernise the right to object to the accounts.

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?

The right to make representations to the auditor or seek judicial review seems a reasonable approach to modernising the right to object to the accounts.

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?

The Council agrees with this in principle, provided that it does not result in an increase in costs.

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 should be no significant impact on the relationship provided there is good communication between the auditor and the audited body about any Freedom of Information Act requests and their responses.

The following questions relate to arrangements for smaller bodies and do not, therefore, apply to Bracknell Forest Council. As such the Council has not expressed any views on arrangements for these bodies.

42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

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?

44. What guidance would be required to enable county/unitary authorities to: a.) Appoint independent examiners for the smaller bodies in their areas? b.) Outline the annual return requirements for independent examiners? Who should produce and maintain this guidance?

45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

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?

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?
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?
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?
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?