

Audit Committee 21 April 2011

Future of local public audit (supplementary paper)

Draft of suggested responses to the '50' questions

Q No.	Issue	Suggested Response
1	Design principles	The principles are sound. Arguably, however, the consultation paper falls short of meeting those principles. Members may feel the proposals for audit committees comprising a majority of non-elected members is unnecessary and a step too far. Some of the proposals for audit committees are inconsistent with the principle of localism.
2	Probation Trust audits	Yes, the council agrees.
3	Who should produce a Code of Practice?	Yes, the council believes the NAO is the most appropriate organisation to produce the Code of Practice.
4	Registration of auditors	Yes
5	Who should maintain register of statutory local public auditors?	The Council believes the Financial Reporting Council should maintain and review the register of statutory local public auditors.
6	Balancing audit experience with entry to the audit market	The new firms must be able to demonstrate their ability thorough their track record in other audited sectors and through their structures and the qualifications and skills of their staff; while displaying a sound awareness of the principles of public audit.
7	Any additional criteria for the appointment of audit firms?	The council believes that a reasonable understanding of the local context of a local public body is an important criterion for auditors. We do not believe this would unfairly restrict the market, as audit firms should be expected to familiarise themselves with the local context of a prospective client at the time of expressing an interest in contracting for its audit work.

8	Public interest entity – definition	
9	PIE – any additional regulation?	<i>The whole issue of PIEs and impacts for public bodies and auditors needs to be understood further before responding</i>
10	Role of regulator in relation to any local bodies treated as PIEs?	
11	Joint procurement of auditors	Yes, the council believes the proposals provide sufficient flexibility in principle for collaboration and joint procurements by local public bodies.
12	Criteria for independent members	There is no mention of relevant financial (accounting or auditing) experience in the criteria, which otherwise are sound.
13	Skills for independent examiners	Yes, the council believes it is necessary for independent members to have relevant financial expertise.
14	Will IE remuneration be needed?	<p>First the council supports the principle of non-elected members playing a part in audit committees of local public bodies, but disagrees with the proposal that non-elected representatives should form the majority of audit committees' members. The council believes that insufficient evidence has been gathered about the role and effectiveness of audit committees, particularly within local government, and therefore the proposal in the consultation paper is unjustified and a step too far. The council feels it should be for local public bodies to decide the proportion of non-elected members to the total size of their audit committees.</p> <p>This said the council believes it may be difficult to source the numbers of independent members needed. Much will depend on the scope of audit work (whether narrow or wide). Yes, the council believes some form of remuneration will be needed and that this should be the subject of recommendations by councils' Independent Remuneration Panels.</p>

15	Audit Committees	<p>The council believes the principle of localism should permit local public bodies to determine the level of non-elected representatives for their audit committees, as well as deciding whether the chair of the committee should be a non-elected or elected member. So, the council is not able to support the options listed in Paragraph 3.9, though agrees with the principle of non-elected member representation on audit committees.</p> <p>The council believes that 'independence' in the appointment of the auditor will be achieved through a recommendation of the audit committee (with some non-elected representation) to the Full Council, where there will be opportunities for public input and questioning, as well as debate if needed.</p>
16	Audit Committee roles	<p>On the basis of the council's views about the composition of members to audit committees, the council believes that Option 2 (the wider mandatory role) should be adopted. This role fits well with the current role of the audit committee.</p>
17	Are the roles appropriate?	<p>Yes the roles are appropriate and should be specified in legislation.</p>
18	Should Code specify how auditors are appointed?	<p>Yes, and the council believes the NAO should maintain the Code</p>
19	Public involvement in auditor appointment	<p>Yes, the council supports the proposal for public involvement in the selection and work of the auditor.</p>
20	Public involvement for other public bodies	<p>Noted</p>
21	Failure to appoint an auditor	<p>Option 2 is supported by the council. The S151 Officer could be given the responsibility to ensure the council makes the appointment and that this be made by Full Council and reported accordingly.</p>
22	Duty to inform when auditor appointed	<p>Yes, the council agrees it will be necessary for local public bodies to inform a body of the appointment, otherwise the Secretary of State's role to step in and appoint will be impossible to operate. The alternative is to place the S151 Officer with the responsibility to inform should the local body fail to appoint.</p>

23	Who is informed?	Yes, the relevant Government department; CLG in the case of local authorities
24	Rotation of audit firms	Yes, it is sensible to limit a term of appointment and the council agrees to a <u>maximum</u> of two consecutive five year terms.
25	Are current ethical standards for rotation sufficient?	Yes, the council believes the current ethical standards provide sufficient safeguards.
26	Requirement to change audit firm after two terms (ten years)	Yes, the council supports the proposal to limit an audit firms engagement to a maximum of two consecutive five-year terms.
27	Resignation and removal of auditors	Yes, the council is satisfied the proposed process is appropriate and provides adequate safeguards for auditors and their clients.
28	Safeguarding against auditors unreasonably limiting their liability	<i>Further consideration of this point needed before responding.</i>
29	Scope of audit work	<i>Note for members: This is one of the more fundamental questions in the consultation paper and requires careful consideration. There are four options given:</i>
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		<i>Option 1 - limit the external audit to a review of the financial statements, with no assessment of value for money.</i>
		<i>Option 2 – opinion of the financial statements (including the annual governance statement), plus a conclusion on value for money arrangements.</i>
		<i>Option 3 – opinion on the financial statements, plus conclusions on: regularity and governance, financial resilience, value for money (similar to the current scope).</i>

		<p><i>Option 4 – opinion on the financial statements, plus a requirement for local public bodies to publish an annual report which the auditor would review and give a conclusion on the level of assurance the report provides.</i></p> <p><i>Option 4 has merit and places larger local public bodies in a similar position to companies. It need not be seen as a new burden, but as a positive aid to transparency. Councils should have flexibility to consider the format of reports, but some guidance will be necessary to govern minimum content.</i></p> <p><i>Option 3 is similar to the current scope. CLG is concerned that the cost would be greater than Options 1 or 2.</i></p> <p><i>If the scope of audit is limited to the financial statements, the council would need to think about how it may provide assurance to residents about value for money and the strength of its governance arrangements. Using the councils discretion these would likely become roles for the audit or overview and scrutiny committees.</i></p>
34	Public interest reporting	Yes, the council believes the ability for auditors to report in the public interest should be retained, and the council does not feel the auditor’s independence will be compromised as a result; subject to the safeguards referred to elsewhere in the consultation paper.
35 36	Provision of non-audit services	Yes, the council believes it would be appropriate for audit committees to consider any proposal to use the auditor for any out-of-audit scope work, and that councils should be advised to follow their procurement arrangements and standing orders so as not to limit the ability for other firms to be invited. The Council may choose to limit the quantum and value of non-audit services to ensure that they do not impact on the key requirement to provide an independent audit.
37	Public interest disclosure – ‘whistleblowing’	Yes, the council believes that both the audit firm and audit committee should be designated ‘prescribed persons’ under the Public Interest Disclosure Act.

38	Transparency – modernising the public’s right to object to the accounts	Yes, the council believes modernising a right that was first introduced 150 years ago is long overdue. We agree that transparency and the FoI Act provide many opportunities for residents to seek information and raise concerns. It is also reasonable for auditors to be brought within the scope of the FoI Act, to the extent they are carrying out functions as public office holders. However, the council does have some concerns about the implications for audit fees, and whether in practice modernising the right to object results in more work for auditors rather than less.
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42	Audit arrangements for smaller public bodies – eg. parish councils. Which option would the council support?	Responding to this question should take account of the views of parish councils – we will consult with parishes prior to the response deadline. Independent examination is suggested for parish councils with income or expenditure greater than £1,000 and less than £6.5 million. So the bulk of parish councils would receive an IE rather than the limited assurance audit (a desk-top review by the AC) they currently receive. An IE would be appropriate for most parish councils, but some larger parishes may feel a fuller audit is more appropriate. If so, a discretion should be available. Limited assurance audits by the AC currently are charges to parish councils according to a sliding scale, based in income or expenditure (whichever is the greater). For parishes where this is less than £1k there is no fee, where income/expenditure is typically in the £10k to 25k range the fee is £135. The highest fee for a parish will be a £550 fee payable by Tenterden Town Council. The maximum fee for a parish or town council is £2,500, payable where income or expenditure is in the range of £750k to £1million. With IE it will be for parishes to determine an appropriate fee. It is unclear whether this will give rise to greater or lesser costs, though with low fees paid currently it is easy to see a possible increase in cost to parish councils.
43	Should the county council (or unitary) commission independent examiners for small bodies?	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. District councils should be considered as commissioners as generally they have greater contact with and awareness of local parish councils and their work and circumstances. But we see parish councils themselves having input to the commissioning process, for parish councils may wish to nominate appropriate persons to be considered. Indeed, in answer to the point raised in Question 45 the council believes it could be appropriate for parish councils who wish to carry out the commissioning role to do so and utilise the District Council’s audit committee for this purpose.

		<p>The council believes that section 151 officers could perform the role acting on advice from the audit committee.</p> <p>There are likely to be additional costs associated with placing of adverts and relative to the IE costs could be significant.</p>
44	What guidance is required to commissioning bodies for IE appointments	The council believes the NAO should produce and maintain guidance, though much of this is currently in place as reflected in the consultation paper. The annual return requirements could mirror the arrangements currently in place from the Audit Commission.
45	Parish councils appointing an IE	This council believes that parishes that wish to appoint an IE should have the ability to do so, but be permitted to use the District Council's audit committee for the purposes of maintaining oversight. There will be some parish councils that may not have the capacity to carry out this role and in these cases may look to the District Council to appoint on their behalf, but be consulted about a recommendation. The council believes that only some parishes would have the capacity and scale of work to create and justify an audit committee.
46	Are there other options to ensure independence?	In responding to Q 45 the council has put forward an alternative.
47	Is the four-level approach to IE too complex?	No, it's not too complex. Again the council would suggest that District councils are involved in commissioning rather than county councils in two-tier areas. However, the suggestion that a larger council's officer may act as an IE for say a parish council might not be seen as creating the independence needed, given that larger councils will provide support to parishes. Under localism the trend of parish and larger councils working together will increase. One option would be to allow an officer of a larger council to be an IE, but in circumstances where they are not closely involved with the activities of the parish council or in collaborative work involving the parish and district/county councils. This might be achieved through using the resources of internal audit teams, subject to their own capacity. For the higher levels of IE the council believes it is necessary for the IE to hold a relevant professional qualification and be experienced in financial or audit work.

48	Public interest reporting for smaller bodies	The council believes that matters of public interest relating to smaller public bodies should be raised with the audited body and the District Council's audit committee. The District Council's audit committee could decide whether to appoint an auditor, and have the ability to determine any appropriate conditions or sanctions for the smaller local public body.
49	Objections to the accounts of smaller public bodies	Subject to replacing district for county council, this council agrees the proposal is appropriate.
50	Regulatory regime for smaller bodies	Subject to replacing district council for county council this council believes it is appropriate for larger councils to act as the regulatory body for smaller public bodies.