

LIST OF 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?

Response: The design principles do not include the audit requirements, just the mechanism for procuring and delivering the audit. It is market forces as well as the audit requirements that will determine the cost of audit.

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

Response: Not relevant to this authority.

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

Response: Yes.

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?

Response: Yes.

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

Response: The Financial Reporting Council as this body is independent of the National Audit Office.

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?

Response: There maybe a barrier to market entry to newer or smaller firms given the voluminous and detailed guidance currently prescribed.

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?

Response: Auditors should have demonstrable experience of auditing organizations of a size comparable with the local public bodies they plan to audit, together with a full and current understanding of the accounting and reporting requirements placed on the audited body.

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?

Response: Public Interest Entities should be defined by their size and significance within the local economy and local electorate.

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?

Response: Opportunities should be taken to reduce the level of regulation in line with the general thrust of reducing bureaucracy based on the size and significance of the entity.

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

Response: Not applicable.

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?

Response: The arrangements set out are appear flexible. However, it should be noted that setting up a joint audit committee for different local Councils may cause problems due to the lack of of a clear line of accountability from the Audit Committee to the individual Councils. In addition, conflicts of interest may make joint procurement more difficult.

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

Response: The inclusion of those other than elected members should be a local decision in the spirit of localism. There is a strong feeling that effective audit committees within the public sector can be largely formed of democratically elected members independent of the executive. The role of non-executive members already includes the detached oversight of the executive, officers and staff of the authority. In Bromley we would wish to continue with a public sector audit committee formed of (and chaired by) elected members who are independent of the executive but we would review the need for independents. Section 102(3) Local government Act 1972 precludes any one other than an elected member being appointed to a committee appointed under section 102 1 or 1A of that act or the purposes of "regulating and controlling the finances of the local authority or of their area". Secondly audit committees or sub-committees are not included in the range of bodies where co-opted members have voting rights unless one is looking at an advisory committee appointed under Section 102 (4) of the 1972 Act .Therefore if the intention is that an Audit committee should be more than an advisory committee there will be the need to amend primary legislation

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?

Response: The Chair of the Audit Committee should have good experience of financial matters. Other members of the committee should have a good understanding of the role of the committee and their role/s within it.

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

Response: Sourcing willing members may be difficult, but finding some with suitable financial experience may be harder. Remuneration should be in line with other local arrangements for Councillors allowances (or similar).

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?

Response: Option 1 is therefore preferred.

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?

Response: The robustness of the audit committee will be determined by those on it and the activity of the chairman, rather than by the regulations. Option 1 therefore presents sufficient guidance to allow the audit committee to respond to local circumstances appropriately.

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

Response: The role should be specified as briefly and simply as possible, but with sufficient detail to allow Audit Committees in different parts of the country to have consistent Terms of Reference where 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?

Response: The process of appointment should conform with wider procurement requirements of the audited body and should not be specified elsewhere.

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

Response: Yes.

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

Response: Not applicable to LBB but it is felt that for bodies without elected members, greater consideration should be given to securing an independent chairman for the audit committee, and some independent members of it.

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?

Response: Option 1 as specified is adequate for this purpose. The audited body would be required to publish its decisions and reasons for them and so be held accountable.

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?

Response: The appointment of an auditor should be reported to the 'overall regulatory body' when decided.

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

Response: see above.

24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Response: Yes.

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?

Response: Yes

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Response: Reappointing Auditors on a five year basis is proportionate, however having that appointment approved by Council on an annual basis is unnecessary

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?

Response: 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?

Response: 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?

Response: Only option 1 will reduce costs. Other options may well increase or maintain costs at existing levels. It has not proved cost-beneficial to specify detailed criteria for Value for Money conclusions and ensure that they are applied consistently on a national basis. Detailed VFM specification like this would only serve as further barriers to smaller local firms entering the market.

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

Response: An annual report is only an advantage if it reduces the overall burden of reporting currently placed on local public bodies.

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?

Response: Only as part of a wider reduction in the burden of financial reporting responsibilities. Local people and central government already receive a great deal of information but not always in a format that promotes understanding.

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

Response: The level of assurance should be part of the specification for audit services decided on by the Audit Committee as part of its wider response to risk and risk management. It should not be specified.

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

Response: Guidance should be minimal. It should focus on the Statement of accounts or summary of the accounts, the review of activities and the future plan. More detailed guidance should not be required.

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?

Response: 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?

Response: No, as this will compromise their ability to provide an independent view.

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

Response: there should be no non-audit services provided.

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?

Response: No, this would not be sensible.

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

Response: There is no need to modernise the right of objection to the accounts. There is, rather, a need to modernise the accounts to provide a relevant and understandable account of the financial activities of the audited body to local people.

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?

Response: It is not agreed that this should be modernized.

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?

Response: Yes, but only to hold the auditors to account. Enquiries on the financial affairs of the audited body should still be answered by that body.

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)?

Response: There will be only limited impact.

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

Response: Not applicable.