

Joint response from the District Council Chief Executives' Network and Society of District Council Treasurers to CLG's consultation on the Future of Local Audit

No.	Question	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>We endorse the four design principles (localism, transparency, cost-reduction and high auditing standards).</p> <p>We would strongly urge the CLG to ensure that all four principles are upheld, without allowing any to be drowned out by any other. In particular, councils must avoid compromising audit quality for financial savings. There is lots of anecdotal evidence of inexperienced staffing of local audits by private sector firms and the sector should ensure that the change does not lead to a lowering of standards resulting in well-publicised auditing scandals as have occurred in the private sector.</p> <p>We agree the principles in paragraph 1.19 will need to be essential features of the new arrangements.</p> <p>We also support the move to split up the three roles of the Audit Commission with regard to external auditing (regulator, commissioner and provider) as this was causing excessive centralisation and bureaucratic inefficiency.</p> <p>In our extensive experience, the Audit Commission has been objective and careful to avoid conflicts of interest.</p>
2.	Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?	Yes.
3.	Do you think that the National Audit Office would be best placed to produce the Code of audit practice and	Yes. Its code should include the regularity, propriety and vfm requirements.

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	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?	Yes. Wherever possible, and with virtually no exception, there should be simplification and harmonisation of procedures between organisations and between sectors in order to maximise efficiency and minimise cost.
5.	Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	<p>One of the key functions of the supervisory bodies is to be responsible for maintaining a list of its members registered to carry out external audits.</p> <p>We would support a continuation of the current arrangements whereby the supervisory bodies have delegated the maintenance to a single member body. This is much more efficient and cost-effective than each body maintaining its own list.</p>
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?	<p>The National Audit Office can specify standards including minimum experience of auditors in its code of auditing standards. Further detailed guidance can be delegated to the qualifying bodies (who are responsible for 'passing fit' individual accountants) and the supervisory bodies (who are responsible for 'passing fit' external auditors).</p> <p>In general terms, the standards should be soft enough to allow new entrants. So perhaps every separate legal entity organisation carrying out external audit would be required to have a named principal who must meet qualification, experience and reference standards. However, that principal could employ non-qualifieds, trainees and temps – provided at all times that the principal was personally responsible for the quality and diligence of all external auditing undertaken by them.</p>
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?	Generally, external auditors should have no criminal record, no director penalties and be free of any conflict of interest. References should be taken up and only candidates with satisfactory references employed.

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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?	If the Government deems it necessary to create public interest entities, these should be determined by reference to workforce size and/or turnover. The limit should be set sufficiently high to exclude all district councils.
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 categories by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?	<p>No. The requirement for each council with turnover of > £6.5m to be annually audited, with standards and safeguards protecting the independence of such auditors, should be sufficient to safeguard the public interest in all but the rarest of cases. In exceptional circumstances, a stakeholder could make use of the public interest provision to request more intense scrutiny. The supervisory and qualifying bodies must sanction and discipline any auditor falling short of the standards. Ultimately, the NAO should have powers to penalise any supervisory or qualifying body that fails to reprimand adequately one of its members who fall short of the standards. This self-policing system with only two layers of auditing is pragmatic and cost-effective.</p> <p>The risk of creating extra auditing tiers, to ensure that an auditor can audit an auditor who can audit an auditor who can audit an auditor who...is wasteful expense.</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?	Those duties in paragraph 2.22 of the consultation paper. In addition, the regulator would fulfil the role of appeal judge – should a stakeholder request a public interest audit and be refused, they would be able to appeal to the regulator (NAO), who can overturn the decision and require a public interest audit to be carried out.
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?	<p>No.</p> <p>There is no need to give any comment or guidance on joint procurement. That seems to go against localism. If local bodies want to procure jointly, they will.</p>

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		<p>The approach outlined is too bureaucratically cumbersome. It is a sledgehammer to crack a nut. Put in context, the typical external audit fee for a district council is £120k p.a., which should reduce considerably with the demise of inspection and greater competition.</p> <p>This is a small contract compared to most other council contracts. Requiring a full council decision is over the top even for a single council. If 5, 10 or 50 councils wish to undertake a joint procurement, it would be logistically impossible to synchronise 5, 10 or 50 separate full council decisions. Even a joint committee with 5, 10 or 50 representatives would be difficult to organise.</p> <p>Instead, the procurement, selection and appointment processes should be no different to any other consultancy or contract. One option would be to make a council's s.151 officer explicitly responsible for the integrity of the auditors' appointment process (which arguably they have implicit responsibility for).</p> <p>The uniqueness of the external audit service – its independence – is different to other contracts, as there need to be processes to prevent councils simply hiring and firing auditors to avoid critical reports. The safeguard should be in the termination of auditors, not in the procurement/appointment of them.</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?	<p>If you make the inclusion of independent non-council members a requirement for the new audit committees, then yes. We agree that only appropriate people should be on the audit committee but consider that the proposals in the paper are contrary to the principle of localism.</p> <p>Several councils believe that only council members should be held accountable for all financial outcomes, including</p>

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		<p>the responsibility to make adequate arrangements for an audit and to comply with good practice as identified by audit recommendations. To have independent members who are not accountable to the public, but who could significantly influence financial outcomes (depending on the scope of the powers given to the audit committee) would be to act against this important principle. There is also the added cost and bureaucracy which conflicts with the “reducing the burdens” agenda</p> <p>It should also be noted that Audit Committees are likely to have broader and more complex roles than simply appointing external auditors – see response to Q16.</p>
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>	<p>Once again, you do not need to design a one-size-fits-all single solution. This fails the principle of localism.</p> <p>Several councils believe very strongly that independent members should <u>not</u> be included on an audit committee (see Q.12 above).</p> <p>But if you make the inclusion of independent non-council members a requirement for the new audit committees, then an independent committee composed of independent, financially astute citizens with relevant experience would be the ideal. However, in the real world few councils will be able to attract many if any such individuals. Therefore, if we have to choose between independent inexperienced citizens and non-independent experienced citizens, it should be a matter for the council to decide.</p> <p>If the government is concerned that a council may abuse this discretion (which is unlikely), then place the responsibility (and accountability) for making an appropriate selection with an existing statutory officer – e.g. the Monitoring Officer or s.151 officer.</p>

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14.	Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, of so, at what level?	<p>Yes. Apathy varies across the country and there are some areas where the ‘armchair auditor’ ethos has worked to stimulate interest. However in many areas councils struggle to attract interest from anyone, and especially from high calibre individuals.</p> <p>Yes, remuneration will probably be necessary. Certainly mileage and subsistence. In addition, a modest responsibility allowance may be needed to attract and retain individuals. Councils should have discretion to determine remuneration locally.</p>
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?	<p>We support the original purpose of changing the current external audit regime – to streamline processes and effect efficiencies. So, please do not disproportionately over-engineer the new-look audit committees.</p> <p>We support none of models, but the most acceptable is the simplest of the proposed models as given in 3.9(a).</p> <p>However, we would urge you not to set rigid rules, which some councils may find simply impossible to achieve. Instead of requiring the chair and x number (or y%) of the audit committee to be independent, we suggest, at most that you consider prescribing as “<u>where possible</u> the chair should be independent and <u>where possible</u> the composition should be x number (or y%) of independents. Again, if you are worried that councils will abuse such discretion, make a statutory officer responsible for overseeing the integrity of the committee.</p> <p>This discretion should also allow those councils which strongly object to the inclusion of <u>any</u> independent non-council members on the audit committee, to ‘opt out’ and justify their reasoning.</p>
16.	Which option do you consider would strike the best	We prefer option 1 (a single mandatory role to advise the

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	balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?	<p>council on the engagement, removal or resignation of the external auditor), allowing each council the discretion to extend the committee's remit according to local needs and changing circumstances.</p> <p>Many councils already have an audit committee or (corporate) governance / overview committees and follow CIPFA guidance. It is likely that most councils would wish the mandatory audit committee to take on the duties from existing audit/governance/overview committee(s) - to streamline. However, the terms of reference of such committees already vary to reflect local needs, as there is no 'one size' solution for every council. Therefore, such duties should not be mandatory or imposed on every council.</p> <p>In the unlikely situation where an audit committee has the single mandatory role for external audit and no other locally determined duties, it becomes questionable whether the committee is cost-effective. By making a statutory officer (ideally the s.151 officer) responsible for monitoring the working of the committee, that officer would be expected to advise their council how to improve the vfm and cost-effectiveness of the committee - possibly by taking on relevant duties from other committees.</p>
17.	Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	<p>As per 16 above - the other roles listed in the consultation document <u>are</u> appropriate and commonly are discharged already by audit/governance/overview committees.</p> <p>They should <u>not</u> be specified in legislation but as now should be set out in guidance by CIPFA which public bodies should be required to have regard to.</p>
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?	No. Councils are able to procure the full range of important and expensive services without detailed regulation. External audit should not be an exception.

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		<p>If government wants to protect the integrity and independence of external auditors, it simply needs to make a statutory officer responsible for ensuring such.</p>
19.	<p>Is this a proportionate approach to public involvement in the selection and work of auditors?</p>	<p>No there is no justifiable reason for such heavy-handed prescription and interference in procurement. There is no tangible benefit in involving the public in the appointment of external auditors. The public is unlikely to be interested in the routine appointments, is inexperienced in such procurements and is unlikely to add value.</p> <p>In each council there are many more 'public interest' and higher value contracts for goods and services likely to be of interest to the local community - which do not require public involvement. Again, there is no reason to make external audit a unique exception.</p> <p>To involve the public would require great effort and expense to engage an adequate number of residents, who would then need to be sufficiently trained and motivated to provide informed judgements. This would delay the process for very little added value.</p> <p>Councillors are the elected representatives of residents and are trained/motivated to take procurement decisions to get best value and ensure integrity.</p> <p>The provision in 3.29 could be included as an extra safeguard but we do not consider it necessary.</p> <p>If government wants to create a failsafe (presumably if it believes the audit committee cannot always be trusted), then place the personal legal responsibility on a statutory officer.</p>
20.	<p>How can this process be adapted for bodies without</p>	<p>The public sector is diverse. Rather than trying to impose</p>

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	elected members?	a 'one size' solution, each sector and type of organization should be considered and a solution found based on its particular current constitution and governance structure.
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?	<p>This seems like a sledgehammer to crack a nut. Local authorities have far greater duties than this to comply with – for example to set a budget and this is done without secretary of state intervention</p> <p>There is a simple, cheap solution already in place - namely the council's existing statutory officers, such as the s.151 officer. Make it their statutory duty to ensure the external auditor is appointed and if council fails to appoint that the s.151 officer must appoint. Make the officer accountable to the council and to the secretary of state for any failure to appoint.</p> <p>Now that the power of surcharge has gone we do not know what sanction could be applied to members.</p> <p>As an added failsafe, the government could give the secretary of state the power to appoint if the council fails to do so - but we believe this power would be unnecessary if the statutory officer is held accountable.</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?	<p>We do not support this approach.</p> <p>Appointment will be the norm (and in practice will probably be discharged 100%). There is no need to inform any body about appointment - this is unnecessary inefficient and bureaucratic.</p>
23.	If notification of auditor appointment is required, which body should be notified of the auditor appointment/ failure to appoint an auditor?	It should not be required.
24.	Should any firm's terms of appointment be limited to a maximum of two consecutive five-year periods?	If this were a truly localist approach all that would be required would be a requirement that the audited body

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		<p>puts in place procedures conforming to best practice on ensuring independence and rotation of audit team members, BUT the proposal would be a pragmatic 'one size' solution which would be acceptable.</p> <p>However, in most instances, the integrity and independence of the external auditor will be maintained without compromise -especially if the statutory officer is personally ensuring such - and from a procurement perspective it might be more cost-effective to provide more flexibility without such rigid rules.</p>
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?	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?	<p>As 24</p> <p>In addition, we consider the requirement for full council to re-appoint the external auditor annually on the advice of the audit committee is unnecessary. To secure best value and provide certainty to the audit firm, the contract needs to be for a predefined contract period (say 5 years). An annual opt-out will introduce significant risk to the audit firm that will be reflected in much higher fees. The process would also be much more onerous for the council to manage. There are sufficient safeguards over the removal of an auditor, so the annual re-appointment is unnecessary.</p>
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?	Yes.
28.	Do you think the new framework should put in place	Yes. Risks need to be properly managed, which does not

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	similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?	necessarily mean that external auditors should be expected to face unlimited liability (as that will be reflected in risk premiums and much higher audit fees, which fails one of the principles for change.) Instead, the regime should allow flexibility so that different councils with different risk appetites can choose to limit auditor liability or prevent limited liability accordingly.
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?	Local government is diverse, from small district and unitary authorities to large county and metropolitan councils. Their needs vary, as do their communities' desire for more transparent accountability. The greater the transparency and breadth of external audit inspection, the greater the cost. Councils should be free to decide on the level of audit according to their local appetite and affordability.
30.	Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	No. This should be left to councils to determine. Councils have been through periods of publishing annual reports and best value performance reports and these received little attention. Going as far as option 4 is unnecessary. Council budgets are key to local communities and these are consulted upon widely. Many high performing councils may choose to publish annual reports. Many councils with active citizen engagement ('armchair auditors') will choose to do so. But those councils who do not feel the need and whose residents are not interested, should not be required to do so.
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?	Yes on an individual, discretionary basis. But as a mandatory requirement to aid inter-council comparisons, no - as they will inevitably be varied in design and content, and full of subjective 'propaganda' (just as private sector annual reports). They will also be burdensome to those councils that currently do not produce them, and those councils that do not get any benefit from them.

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		<p>Again, s.151 officers are required to report to full council on the robustness of estimates and reserves and the auditor's value for money judgement under option 2 will require the auditor to consider financial resilience in making that judgement. There is no need to require an annual report</p> <p>(The statement of accounts are much more heavily prescribed than annual reports - and even they are almost impossible to compare accurately)</p>
32.	Should the assurance provided by an auditor on the annual report be 'limited' or 'reasonable'?	<p>See 31 suggesting that annual reports are not made mandatory.</p> <p>For councils that choose to produce them, the audit assurance should be "reasonable".</p>
33.	What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	<p>See 30, which indicate we do not think that annual reports should be made mandatory.</p> <p>CIPFA could provide guidance for councils which choose to produce Annual Reports</p>
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?	Yes. However, if an additional safeguard were required, it would be simple to add to the s.151 officer's responsibilities.
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?	Yes, with the client council having the discretion to buy in extra services or use internal resources as they see fit.
36.	Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?	Yes
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	Yes.

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	Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?	
38.	Do you agree that we should modernize the right to object to the accounts? If not, why?	Yes
39.	Is the process set out above the most effective way for modernisation the procedures for objections to accounts? If not, what system would you introduce?	Yes but we do not see what further publicity requirements are needed.
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?	No, the public can apply to the public body with its FOI. There is no need for extend this to the auditor.
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)?	See above, we do not believe FOI should be extended. There may be impacts on audit fees if an auditor receives numerous and/or complex FOI requests which cause it to spend considerable auditor time on them.
42.	Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	Option 1
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?	This should not be prescribed by government. Instead, small bodies and their representative bodies, for example National Association of Local Councils should be free to explore and develop commissioning arrangements as they see fit. It will suit some areas and not others. District Councils may be more appropriate to make arrangements. So councils should have the power (not the duty) to commission examiners. In such cases, the responsibility should rest with the s.151 officer. There would be little extra cost.
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	No guidance would be needed. The s.151 officer would ensure that sound and proper practices are employed.

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	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?	Yes, but unnecessary as option 1 is adequate and proportional.
46.	Are there other options given the need to ensure independence in the appointments process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?	Unnecessary.
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?	The 4 level approach is adequate.
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?	Yes.
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?	Yes. However, in two tier areas district councils have the greater relationship with parishes and parishes precept on the district councils so districts rather than counties would be the most appropriate body.
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?	Yes
	Other general comments	As a result of this regime, with reduced bureaucracy, more competition and local discretion, we would expect to see savings of at least 20% off our current audit fees – which should be set as the benchmark. We note from paragraph 1.30 that this consultation does

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		<p>not cover other important Audit Commission functions such as grant certification, National Fraud Initiative and Whole of Government Accounts. These also place onerous burdens on, and represent significant costs to, councils. We look forward to having the opportunity to provide constructive advice on these functions when they are consulted on separately.</p> <p>We agree the proposals for the audit of pension funds (paragraph 1.25) and we agree constituent authorities making up joint committees should decide whether the Joint Committee is audited separately or as part of one of the authorities' own audits (paragraph 1.26).</p> <p>Overall, it seems to us that it would be simpler to split the AC into a regulatory body and a provider body and much of what you are seeking to put in legislation would already be there in the regulatory element of AC, e.g. provisions for the auditor undertaking other work.</p>