

DCLG: FUTURE OF LOCAL PUBLIC AUDIT CONSULTATION

The consultation paper takes the form of 50 questions, reproduced below with suggested responses. (The sections in italics are the summarised proposals from the consultation paper to assist with understanding the questions and responses and will be removed when the final response to DCLG is made. For full details of the proposals see the consultation paper [click here](#))

Consultation Question	Dudley MBC Response
SECTION 1 – INTRODUCTION	
<p>Q1: 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> <p><i>The proposals have been based on the principles of:</i></p> <ul style="list-style-type: none"> • <i>Localism and decentralisation</i> • <i>Transparency</i> • <i>Lower audit fees</i> • <i>High standards of auditing</i> 	<p>A1: While we would accept these as principles, they may not be met by the proposals. Consideration needs to be given to the large number of public bodies approaching the same market at the same time. Even with joint procurement there will be large additional costs to the public sector from numerous procurement exercises rather than centralised organisation of the matter by [for example] the National Audit Office (NAO). Notwithstanding this point, we have provided answers to a number of questions in this document that relate to the specific arrangements if local public bodies are required to appoint their own auditors.</p>
<p>Q2 relates to probation trusts and is therefore not relevant</p>	
SECTION 2 – REGULATION OF PUBLIC AUDIT	
<p>Q3: Do you think that the National Audit Office (NAO) would be best placed to produce the Code of audit practice and the supporting guidance?</p> <p><i>Under the proposals, auditors of local public bodies would continue to follow the auditing and ethical standards set by the Auditing Practices Board. The National Audit Office, given its role in providing Parliament with assurance on public spending, would develop and maintain the audit Codes, which would continue to be approved by Parliament, and produce any supporting guidance.</i></p>	<p>A3: Yes</p>

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Q4: 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?	A4: The NAO could do this in the same way they already cover central government audits.
Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors? <i>It is proposed that all eligible local public auditors would be placed on a public register. This register could be kept by the recognised supervisory bodies for local public audit, or it could be kept by another body.</i>	A5: NAO
Q6: 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?	A6: This could be managed through central coordination by the NAO. Any new firms would have to be able to demonstrate their ability through their track record in other sectors and would have to demonstrate sound awareness of the principles of public audit.
Q7: 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?	A7: No comment
Q8: 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?	A8:10: No comment, these are areas where The Chartered Institute of Public Finance and Accountancy (CIPFA) should respond.
Q9: 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?	
Q10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?	

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SECTION 3 COMMISSIONING LOCAL PUBLIC AUDIT SERVICES	
<p>Q11: 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> <p><i>.Proposed legislation will provide for both joint procurement and joint audit committees.</i></p>	<p>A11 : Cooperation is conceptually sound but we will need some guidelines as to what is the range of fees we should be paying without setting up other sources of information on contract prices. There is also a question mark over whether cooperation should extend to other public bodies such as Dudley Group of Hospitals and GP Consortia within Dudley or the wider area. Audit Committee Members are elected by the public and this should satisfy the requirement for public involvement in the procurement.</p>
<p>Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?</p>	<p>A12-14: This is a radical departure from current local government thinking and would create disruption and unnecessary bureaucracy to the working of the Audit Committee. The Members of the Audit Committee have been elected by the public and are the embodiment of local public transparency. The need for a 'majority' of independent members is unnecessary and conflicts with the democratic role of Councilors as representatives of the public. Independent members lack the same democratic legitimacy as elected Members</p>
<p>Q13: 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>	

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<p>Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level</p>	<p>and the proposals undermine the fundamental role of a Councilor. It should be noted that CIPFA have previously issued guidance on Audit Committees and their role should not be subjugated. They are in a good position to comment on, and determine, the constituent parts of the whole system of audit.</p> <p>There is scope for recommending some form of independence but this should be limited to one or two members of the Audit Committee if we were to consider it important to bring on board specific skills not evident within existing Members portfolio of skills. It may be difficult to source independent members as has been the case for many Councils in administering the standards regime. The system of recruitment in itself is a costly and time-consuming process. This is additional to the problems we are likely to have in co-opting people with the relevant expertise as opposed to people with a "political" or personal agenda.</p> <p>Remuneration may be required but is likely to be a sensitive issue.</p>

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<p>Q15: 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> <p><i>It is proposed that the audit committee has a majority of members independent of the local public body and, with some elected members to strike a balance between objectivity and in-depth understanding of the issues. However, there could be alternative arrangements, for example:</i></p> <p><i>a) only the chair and perhaps a minority of members are independent of the local public body</i></p> <p><i>b) a chair and a majority of members independent of the local public body, as described below</i></p> <p><i>c) as for (b), but with independent selection of the members independent of the local authorities</i></p>	<p>A15: None of the options in paragraph 3.9 seem suitable. The current Audit Committee format can provide independence and a decentralized approach</p>
<p>Q16: 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?</p> <p><i>Option 1</i> <i>The duty of the audit committee be limited to providing advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.</i></p> <p><i>Option 2</i> <i>A more detailed mandatory role for the audit committee.</i></p>	<p>A16: We do not need to amend the current format to maintain a localist approach and a robust role for the audit committee. The independence of the auditor should be a role for the NAO and FRC.</p>
<p>Q17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?</p>	<p>A17: Guidance from CIPFA would suffice.</p>

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<p>Q18: 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?</p>	<p>A18: The National Audit Office could produce guidance</p>
<p>Q19: Is this a proportionate approach to public involvement in the selection and work of auditors?</p> <p><i>Transparency could be increased by including the public:</i></p> <p><i>Pre-appointment</i> <i>The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms.</i></p> <p><i>Post – appointment</i> <i>The public would be able to make representations at any time to the local public body's audit committee.</i></p>	<p>A19: This seems to be a suitable approach but should be seen in the bigger picture of Forward Procurement rules and guidance</p>
<p>Q20: How can this process be adapted for bodies without elected members?</p>	<p>A20: Not applicable</p>
<p>Q21: 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> <p><i>Option 1</i> <i>The Secretary of State would be able to direct the local public body to appoint an auditor.</i></p> <p><i>Option 2</i> <i>The Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.</i></p>	<p>A21: Option 1 backed up by the Accounts & Audit Regulations</p>

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<p>Q22: 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>	<p>A22: Only if they have failed to appoint an auditor by the required date.</p>
<p>Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?</p>	<p>A23: DCLG</p>
<p>Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?</p> <p><i>The audited body would be able to re-appoint the same firm for a second consecutive five-year period, following competition.</i></p> <p><i>To preserve independence, It is proposed that the audited body would need to procure a different audit firm at the end of the second five-year period.</i></p>	<p>A24: Yes</p>
<p>Q25: 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?</p>	<p>A25: Yes</p>
<p>Q26: 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>	<p>A26: Yes</p>

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<p>Q27: 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?</p> <p><i>Stringent safeguards are needed for the resignation and removal of an auditor to protect the independence of the auditor and the quality of the audit. These safeguards would broadly mirror those in the Companies Act, but would be adapted to reflect the principles of public audit. The process would be designed to ensure that auditors are not removed, or do not resign, without serious consideration.</i></p>	A27: Yes
<p>Q28: 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?</p>	A28: Yes

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SECTION 4 – SCOPE OF AUDIT AND THE WORK OF AUDITORS	
<p>Q29: 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 provide sufficient assurance and transparency to the electorate? Are there other options?</p> <p><i>Government has identified the following three options to deliver effective audit that conforms to the principles of public audit.</i></p> <p><i>Option 1</i> <i>Give an opinion on the financial statements only</i></p> <p><i>Option 2</i> <i>Option 1 plus value for money work (as the current system).</i></p> <p><i>Option 3</i> <i>As option 2 plus looking at governance and financial resilience.</i></p> <p><i>Option 4</i> <i>As Option 3 plus producing an annual report.</i></p>	<p>A29: Option 2 gives a balance between transparency and costs.</p>
<p>Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?</p>	<p>A30: Public bodies already publish a large range of planning, performance and financial information. This has increased in light of transparency requirements. Public bodies should retain discretion around the format and methods of publication. Production of an annual report may not be viewed as a good use of resources.</p>
<p>Q31: 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?</p>	<p>A31: Publishing External Audit reports should cover this without the need for duplicating in an annual report</p>
<p>Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?</p>	<p>A32: If required then reasonable assurance</p>
<p>Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?</p>	<p>A33: If required, CIPFA could cover this</p>

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<p>Q34: 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?</p> <p><i>It is proposed that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them.</i></p>	<p>A34: In theory yes</p>
<p>Q35: 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?</p>	<p>A35: The House of Lords has recently argued against external auditors also supplying internal audit services to the same organization. The provision of other services could work with safeguards. Could consider setting a limit by value on non audit services to ensure independence not compromised.</p>
<p>Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?</p>	<p>A36: Yes.</p>
<p>Q37: 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?</p>	<p>A37: If Standards Committee disbanded then Audit Committee could take over Confidential Reporting Policy and this could facilitate cover for the Public Interest Disclosure Act. However not sure who if anyone is deemed a “designated prescribed person” currently.</p>
<p>Q38: Do you agree that we should modernise the right to object to the accounts? If not, why?</p>	<p>A38: Yes</p>
<p>Q39: 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?</p>	<p>A39: Yes</p>
<p>Q40: 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?</p>	<p>A40: Yes</p>

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Q41: 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)?	A41: Part of the contract
SECTION 5 – ARRANGEMENTS FOR SMALLER BODIES	
Not relevant to Dudley MBC.	
Includes Q42 to Q50	