

AUDIT COMMITTEE

MINUTES of the meeting held on Wednesday, 22 June 2011 commencing at 10.00 am and finishing at 1:10pm.

Present:

Voting Members:

Councillor David Wilmshurst – in the Chair

Councillor Tony Crabbe

Councillor Roy Darke

Councillor Jean Fooks (In place of Councillor Alan Armitage)

Councillor A.M. Lovatt

Councillor Charles Mathew

Councillor Larry Sanders

Councillor C.H. Shouler

Councillor Lawrie Stratford

**Non-voting
Co-optees:**

Dr Geoff Jones

**Other Members in
Attendance:**

Councillor Jim Couchman, Cabinet Member for Finance & Property

By Invitation:

Mary Fetigan, Audit Commission

Officers:

Whole of meeting

Head of Law & Governance; Sue Scane, Assistant Chief Executive & Chief Finance Officer; Lorna Baxter, Acting Head of Corporate Finance; Ian Dyson, Assistant Head of Finance (Audit)

Part of meeting

Agenda Item

6

Officer Attending

Chief Executive; Head of Human Resources; Director for Environment & Economy; Director for Social & Community Services; Chief Fire Officer & Head of Community Safety; Annie Callanan in place of Director for Children, Education & Families

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

27/11 ELECTION OF CHAIRMAN FOR THE 2011/12 COUNCIL YEAR

(Agenda No. 1)

RESOLVED: (on a motion by Councillor Shouler, seconded by Councillor Darke and carried nem. con.) that Councillor Wilmshurst be elected to chair the Committee for the current Council year.

28/11 ELECTION OF DEPUTY CHAIRMAN FOR THE 2011/12 COUNCIL YEAR

(Agenda No. 2)

RESOLVED: (on a motion by Councillor Shouler, seconded by Councillor Stratford and carried nem. con.) that Councillor Mathew be elected as Deputy Chairman for the current Council year.

Members thanked the former Deputy Chairman, Councillor Ray Jelf for his work in that role.

29/11 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 3)

Apology for Absence	Substitute
Councillor Armitage	Councillor Fooks

30/11 BUSINESS STRATEGIES

(Agenda No. 6)

On 20 April 2011 the Committee had resolved, at the suggestion of the Chairman who was also Member Champion for Risk Management, to hold this additional meeting with the main business being the Corporate and Directorate Business Strategies and the process of governance that underpinned their delivery, to be led by the Chief Executive with Directors in attendance. Committee members had before them copies of the Business Strategies of the Chief Executive’s Office and Directorates, which had been circulated previously.

The Chief Executive thanked the Committee for the opportunity to update councillors on the Business Strategy whose success was a critical matter for the Council. She then presented an overview of the Strategy which focused on four main areas, namely challenging current methods of working, the financial pressures, Government policy and local needs / feedback. The presentation looked at the background in terms of structures which had emerged during periods of economic growth, the legacy of different initiatives and the growth of bureaucracy, information silos and multiple management layers. The presentation then looked forward to the aims and objectives of the Strategy, changing the way we work, the reshaping of management, the Customer Service Centre and improved customer focus, asset management, service and resource planning, community self-help / Big Society and ICT. The Governance arrangements were clearly shown together with monitoring, the timetable and red, amber & green rated reporting with a summary of savings and estimates for 2011/12-2014/15. The Chief Executive, the Assistant Chief Executive & Chief Finance Officer and the Head of Human Resources then responded to

members' questions and comments including the aims of the Strategy, the reshaping of management and rationalisation of structures, tiers and establishment/posts, training and development of staff, further planned reductions to 2013/14 and members' roles in the formal decision making process. The officers considered that the Strategy was placing the Council in a good position to participate fully in the localism agenda. (A copy of the presentation slides is attached to the signed Minutes and is available on request).

The Chairman thanked the Chief Executive for the comprehensive presentation and for the reassurance that appropriate and adequate governance and monitoring arrangements were in place.

Ms. Callanan, Performance Improvement & Development Manager who represented the Director, Children Education & Families then outlined the context of and planning and transformation process underway in the directorate to improve services through, for example management review/restructuring and the continuous review of quality, compliance and joint commissioning. She also reported on mechanisms to seek user/public participation/views, the management of key risks during the process and monitoring the impact and savings achieved.

The Director for Social & Community Services spoke about the four key elements of the directorate's overall strategy (prevention, personalisation, protection and partnerships), changes in the directorate including planning, staffing & resourcing and the rationalisation and management of projects through the directorate Change Board, performance management and the management of key risks. There was regular liaison with and inputs from finance, legal and HR together with mechanisms for effective engagement with stakeholders and user/carers.

The Director for Environment & Economy outlined the directorate's business and efficiency Strategy which had been established in 2010/11, building on a framework of five principles: generating efficiencies through procurement, directorate transformation and restructuring, prioritisation of services (now a strategic priority), review of income and strategic management of property. There were three critical external pressures on the directorate: the relationship between capital investment and revenue funding, expected cuts in capital funding and housing growth; and there were specific pressures affecting the Medium Term Financial Plan. He confirmed that improvements were in place in the directorate for project management, governance arrangements & the management of risk, monitoring the impact of change, achievements and outcomes. The delivery of services mainly through others presented new challenges.

The Chief Fire Officer & Head of Community Safety reported briefly on the Service's risk management structure, including any implications arising from the cancellation of the central fire control proposals.

During the general debate members considered:

- the role of the Cabinet in decisions about major shifts in service provision;

- the important role of scrutiny to include in scrutiny committees' work programmes provision for the review of the effectiveness of the Business Strategy in terms of policy implementation and outcomes, for comment / recommendation as appropriate to the Cabinet;

- and agreed to regular reporting by the Assistant Chief Executive & Chief Finance Officer to the Audit Committee on progress in implementing the Business Strategy.

The Chairman thanked the Chief Executive, Assistant Chief Executive & Chief Finance Officer, Directors and officers for their reports and work.

RESOLVED: to receive and note the presentation and reports and thank all concerned.

31/11 DEPARTMENT FOR COMMUNITIES & LOCAL GOVERNMENT - CONSULTATION PAPER ON LOCAL PUBLIC AUDIT

(Agenda No. 7)

Members considered the draft response (AU7) to the Department for Communities & Local Government (DCLG) consultation on the future for Local Public Audit following consideration by the Audit Working Group (AWG) on 16 June 2011.

Mr Dyson reported that he had amended the initial draft response to take on board AWG members' views. The paper contained a response to all 50 questions and he had pulled out the key issues/messages as a summary at the beginning.

He commented on two issues in the draft that in particular:

- he had included a statement that we believe that appointed auditors should not be allowed to provide any other services to the Council during the term of their contract. This could have a detrimental impact on the cost and reduce the overall market place. What was proposed by the DCLG included the Audit Committee being the body who had to approve the provision of other services, once they were satisfied the risk of compromising independence was not material; and
- there was much debate about the Value for Money (VFM) role of the public auditor (Q29); he thought the Group may have been minded towards option 2, whereby the Auditor was required as now to provide a VFM opinion. In the draft response he had left in Option 1, but provided more context as there were cost/control implications that may need further consideration.

Committee members' expressed themselves to be content with the text in AU7 and thanked Mr Dyson for his work.

RESOLVED: to approve the draft response at AU7 and note that following the Committee meeting it would be submitted to the DCLG before their deadline of 30 June 2011. (The response as submitted to the DCLG is attached).

..... in the Chair

Date of signing

Response – CLG Consultation – Future of Local Public Audit

This response is being submitted jointly on behalf of Oxfordshire County Council and the Oxfordshire Fire and Rescue Service.

Responses to the individual questions have been provided, but the key issues are summarised as follows:

Section 1 – Introduction (Q1-2)

The design principles are correct, and we strongly support the move to localism and decentralisation; however, you will note from our responses below that we feel some of the proposals that are very prescriptive undermine the principle of localism.

Section 2 – Regulation of local public audit (Q3-10)

Whilst we have no objection to replicating the system for approving and controlling statutory auditors, high quality should be a strong requirement within the eligibility criteria; and, the regulator should adopt robust monitoring to ensure that all bodies who apply to be on the register, or are on the register, meet the criteria. The monitoring must be effective to ensure quality, but must not become bureaucratic and costly as that will deter some bodies from applying. It should be an objective of the regulator to ensure there is a competitive market that gives public bodies' real choice and therefore the opportunity to procure low cost high quality services.

We would agree that all local public bodies, by their nature accountable to their local stakeholders, are effectively 'public interest entities'; however, we would disagree with the need for any additional regulation or monitoring of these bodies. This would inevitably increase the costs, for little benefit to our local communities. Under the proposal the Financial Reporting Council can have general oversight over the local public audit procurement, as this will be reported in the public domain by every Council. The local Audit Committees will be monitoring the performance of the Auditor, and the independent assurance over quality comes from the monitoring undertaken by the 'recognised supervisory bodies' who will no doubt be informing the FRC of any concerns regarding the quality of the Auditors. Should this occur you would expect the FRC to report concerns to the relevant Council and in instances where the firm is removed from the register of eligible local public auditors, statute should require termination of all contracts between the local body and that firm, without the local body incurring a financial penalty. The general principle here should be that the elected Audit Committee (supported by Independent Members) should be in control of the appointment and performance monitoring of the public auditors. If this is undertaken in an open and transparent way there should be no need for additional regulation or monitoring.

3. Commissioning local public audit services (Q11-28)

In section 3.6 reference is made to "opportunities for the electorate to make an input". We disagree with this, and do not see that it would add and value to the procurement process. Procurement activity is already transparent, and open to the scrutiny of the electorate, but for the procurement process to be effective in achieving good value

and quality, it should be conducted by those officers/members who are responsible for the activity (and who are therefore accountable to the electorate for that procurement). Inviting the electorate to participate in the procurement process would add delays and unnecessary bureaucracy to a process which currently works well.

We do not believe any of the options listed in para. 3.9 are appropriate or proportionate. We strongly believe that the existing Audit Committee arrangements, in compliance with the guidance for “Effective Audit Committees” published by CIPFA in 2006, work well and with some changes to incorporate responsibility for the appointment of the public auditors, are still relevant. As a public body we believe the role of the Audit Committee to be much wider than just the appointment and monitoring of the Auditor. They currently have responsibility for Internal Audit, Governance and Risk Management – this enables the Committee to fulfil their stewardship role effectively by giving them full visibility of the effectiveness of the Governance Assurance Framework, and the system of internal control; when required the Committee is able to call to account officers and members where issues arise. We do agree that having a suitable experienced and knowledgeable independent member would provide a greater assurance over the independent appointment of the auditor, but do not think it is proportionate to direct that the role should be chairman or that several independent members are required. To ensure independence, the independent member should have voting rights within the Committee, and could be asked to report annually either to full Council or through the Annual Governance Statement that proper practice has been followed by the Audit Committee. We would also expect the role of the independent member to be safeguarded by having direct access to the Leader, and the statutory officers as required.

We strongly believe the term of appointment for any firm should be no more than two consecutive five year periods. This is an effective means of demonstrating independence; however, we are also aware that this could further restrict the market which in turn could lead to higher costs. It is therefore essential that the regulator ensures there is a competitive market available.

4. Scope of audit and the work of auditors

Whilst we believe that in principle having an independent opinion on whether a local authority is securing value for money should provide greater assurance to the electorate, experience of the CAA and use of resources process has demonstrated how it is very difficult to set a standard and criteria that can give a meaningful and accurate judgement. The concern therefore is that for the public audit body to give such a judgement would require a disproportionate amount of work, that the Local Authority would have no control over the cost. There is every likelihood that overall the cost of the local public audit would exceed that currently being paid as firms will seek to mitigate their own professional liability when giving an opinion. We therefore believe that option 1 is most consistent with the principle of localism, and will provide the best value to the electorate. There are already existing mechanisms by which the electorate can consider value for money, regulation and propriety, for example publishing all spend over £500, published contract registers, Statement on Internal Control / Annual Governance Statement, Internal Audit. It would be more cost effective to extend the role of the Audit Committee to one which has responsibility for

ensuring proper arrangements exist for securing value for money – the independence could then be demonstrated by the inclusion of an independent member on the Audit Committee.

We strongly believe that in safeguarding the independence of the local public auditor they should not be able to provide any other services to that body.

We strongly disagree that it is sensible for auditors to be brought within the remit of the Freedom of Information Act. We feel it would restrict their ability to fulfil their role effectively. It could put at risk the ability to develop an effective working relationship and the open and honest conversations that operate when there is a trust between the auditor and the audited body. We would expect costs to be significantly increased if there was the potential for firms to be subject to FOI.

5. Arrangements for smaller bodies

We do not see the advantage for county or unitary authorities being involved in the commissioning of arrangements for smaller bodies. Whilst we understand the benefits to the smaller bodies in having the appointment process managed independently, there would inevitably be a cost that would fall upon the county along with the liability. It is unclear what benefit the county would derive from such an arrangement.

RESPONSES TO INDIVIDUAL QUESTIONS

Section 1 – Introduction (Q1-2)

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?

The design principles are correct, and we strongly support the move to localism and decentralisation; however, you will note from our responses below that we feel some of the proposals that are very prescriptive undermine the principle of localism.

Q2 Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?

No opinion

Section 2 – Regulation of local public audit (Q3-10)

Q3 Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Yes

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?

We have no strong view on whether adopting the Companies Act 2006 approach is the best option. What we want is the regulator to have transparent and robust monitoring arrangements in place so that it can provide real assurance on quality to ease the procurement process.

Q5 Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

One central body, but no strong opinion on who that should be.

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?

So long as the eligibility criteria is clear; any firm who believe they meet that criteria should be able to apply to go on the register, and then be subject to due diligence checks by the body responsible for maintaining the register.

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?

Firms could be required to have a proportionate representation of members of the Chartered Institute of Public Finance and Accountancy within their team working on audits of local public bodies.

Q8 - 10

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?

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?

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

We would agree that all local public bodies, by their nature accountable to their local stakeholders, are effectively 'public interest entities'; however, we would disagree with the need for any additional regulation or monitoring of these bodies. This would inevitably increase the costs, for little benefit to our local communities. Under the proposal the Financial Reporting Council can have general oversight over the local public audit procurement, as this will be reported in the public domain by every Council. The local Audit Committees will be monitoring the performance of the Auditor, and the independent assurance over quality comes from the monitoring undertaken by the 'recognised supervisory bodies' who will no doubt be informing the

FRC of any concerns regarding the quality of the Auditors. Should this occur you would expect the FRC to report concerns to the relevant Council and in instances where the firm is removed from the register of eligible local public auditors, statute should require termination of all contracts between the local body and that firm, without the local body incurring a financial penalty. The general principle here should be that the elected Audit Committee (supported by Independent Members) should be in control of the appointment and performance monitoring of the public auditors. If this is undertaken in an open and transparent way there should be no need for additional regulation or monitoring

3. Commissioning local public audit services (Q11-28)

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?

We agree that the arrangements should be flexible to allow councils to cooperate and jointly appoint auditors, but believe this can be applied through current procurement arrangements, as it is already a practice applied in the procurement of other services. We also believe that the appointment of Auditors should be made by the Audit Committee; it would appear an unnecessary bureaucratic step having the Audit Committee advise the full council who then make the appointment.

In section 3.6 reference is made to “opportunities for the electorate to make an input”. We disagree with this, and do not see that it would add value to the procurement process. Procurement activity is already transparent, and open to the scrutiny of the electorate, but for the procurement process to be effective in achieving good value and quality, it should be conducted by the those officers/members who are responsible for the activity (and who are therefore accountable to the electorate for that procurement). Inviting the electorate to participate in the procurement process would add delays and unnecessary bureaucracy to a process which currently works well.

Q12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

We agree with the criteria listed, but would add experience/knowledge of public body governance and accounts.

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?

This should be determined by each authority. It would be difficult to fulfil all the requirements of the role without a degree of financial expertise sufficient to allow effective questioning and challenge; however, it would not be essential for all independent / elected members to have that knowledge for the Committee to be effective.

Q14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Yes. The Oxfordshire County Council Audit Committee operates successfully with one independent member, but if a number were required this would cause a significant problem as there are several public bodies within Oxfordshire and across the border that would all be seeking to attract members from a small pool. We would expect remuneration to be paid, but that the value should be determined by the local remuneration panel.

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?

We do not believe any of the options listed in para. 3.9 are appropriate or proportionate. We strongly believe that the existing Audit Committee arrangements, in compliance with the guidance for “Effective Audit Committees” published by CIPFA in 2006, work well and with some changes to incorporate responsibility for the appointment of the public auditors, are still relevant. As a public body we believe the role of the Audit Committee to be much wider than just the appointment and monitoring of the Auditor. They currently have responsibility for Internal Audit, Governance and Risk Management – this enables the Committee to fulfil their stewardship role effectively by giving them full visibility of the effectiveness of the Governance Assurance Framework, and the system of internal control; when required the Committee is able to call to account officers and members where issues arise. We do agree that having a suitable experienced and knowledgeable independent member would provide a greater assurance over the independent appointment of the auditor, but do not think it is proportionate to direct that the role should be chair or that several independent members are required. To ensure independence, the independent member should have voting rights within the Committee, and could be asked to report annually either to full Council or through the Annual Governance Statement that proper practice has been followed by the Audit Committee. We would also expect the role of the independent member to be safeguarded by having direct access to the Leader, and the statutory officers as required.

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?

Option 1 is appropriate leaving it to the authority to decide on other roles, although we would suggest this be in accordance with guidance for example the existing CIPFA guidance on Effective Audit Committees 2006. Option 1 refers to the Audit Committee advising on the engagement of the Local Public Auditor, as stated in a previous answer; we believe that through the constitution the Audit Committee should be afforded the authority to appoint.

Q17 Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

We do not believe it is necessary to specify the role in legislation, further that what already exists with regard to the Accounts and Audit Regulations

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?

Guidance only. For public bodies it would be relevant for CIPFA to produce the guidance as they currently do.

Q19 Is this a proportionate approach to public involvement in the selection and work of auditors?

We disagree with the proposal for the public to be able to make representation about firms who have submitted tenders. The procurement rules are robust, and the process is transparent. The Audit Committee should be the decision maker on the appointment of the Auditors, so we would also suggest it is not necessary for that decision to be referred to Full Council for making the appointment.

We do agree that post appointment the public can make representations at any time to the audit committee as set out in 3.29.

Q20 How can this process be adapted for bodies without elected members?

No opinion

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?

Option 1

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?

This should be transparent through the Audit Committee papers which are published and made public, so we do not believe it would add any value making a separate report to another body.

Q23 If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

Under the proposal in 2.13 the FRC could have the role as regulator, or under 2.6 the NAO has a role on the audit standards, so if notification is required either of these bodies would seem appropriate.

Q24 Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Yes we strongly believe this should be in place as a means of demonstrating independence; however. We are also aware that this could further restrict the market which in turn could lead to higher costs. It is therefore essential that there is a competitive market.

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?

Yes – but this should be included in guidance to the Audit Committees on making appointments.

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?

Yes

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?

Yes

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?

Yes

4. Scope of audit and the work of auditors

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 provides sufficient assurance and transparency to the electorate? Are there other options?

Whilst we believe that in principle having an independent opinion on whether a local authority is securing value for money should provide greater assurance to the electorate, experience of the CAA and use of resources process has demonstrated how it is very difficult to set a standard and criteria that can give a meaningful and accurate judgement. The concern therefore is that for the public audit body to give such a judgement would require a disproportionate amount of work, that the Local Authority would have no control over the cost. There is every likelihood that overall the cost of the local public audit would exceed that currently being paid as firms will seek to mitigate their own professional liability when giving an opinion. We therefore

believe that option 1 is most consistent with the principle of localism, and will provide the best value to the electorate. There are already existing mechanisms by which the electorate can consider value for money, regulation and propriety, for example publishing all spend over £500, published contract registers, Statement on Internal Control / Annual Governance Statement, Internal Audit. It would be more cost effective to extend the role of the Audit Committee to one which has responsibility for ensuring proper arrangements exist for securing value for money – the independence could then be demonstrated by the inclusion of an independent member on the Audit Committee.

Q30-Q33.

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

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?

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

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

The principles of localism should apply, so we do not think an annual report should be a requirement, but would expect it to be good practice. In terms of financial resilience, regularity and propriety these are already in the public reporting, through Medium Term Financial Plans and annual budget setting, and the Annual Governance Statement.

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?*

Yes

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?*

No. We believe that in safeguarding the independence of the local public auditor they should not be able to provide any other services to that body.

Q36 *Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?*

As Q35 we disagree with what is being proposed; however if the proposal is applied then the role of the Audit Committee is key in approving the additional work ensuring independence is not compromised. There would be a need for strong guidance or

proper practice notes issued to support Audit Committees in discharging this role effectively.

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?

Yes

Q38 *Do you agree that we should modernise the right to object to the accounts? If not, why?*

Yes

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?*

Yes – with the exception of Q40 below

Q40 and Q41

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?

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)?

No – we strongly disagree as we feel it would restrict their ability to fulfil their role effectively. It could put at risk the ability to develop an effective working relationship and the open and honest conversations that operate when there is a trust between the auditor and the audited body. We would expect rates to be significantly increased if there was the potential for firms to be subject to FOI.

5. Arrangements for smaller bodies

Q42 – Q44

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

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?

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?

We do not see this as a role for county or unitary authorities. Whilst we understand the benefits to the smaller bodies in having the appointment process managed independently in reducing their cost, the cost would fall upon the county along with the liability. It is unclear what benefit the county would derive from such an arrangement.

Q45 – Q50

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

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?

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?

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?

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?

Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

No Comment