

AUDIT COMMITTEE

28<sup>th</sup> June 2011

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**CONSULTATION ON THE FUTURE OF LOCAL PUBLIC AUDIT (DCLG)**

Cabinet Member: Councillor John Brady – Finance, Performance and Risk

Key Decision: No

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**Executive Summary**

This report sets out Wiltshire Council's proposed response to the consultation document issued by the Department for Communities and Local Government (DCLG), entitled the Future of Local Public Audit. This relates to external audit arrangements and various associated matters. The proposals provide, amongst other things, for:

- The establishment of a regulatory framework that is similar to the framework for the private sector. It would involve the National Audit Office setting Codes of Practice for external audit. The Financial Reporting Council and 'Recognised Supervisory Bodies' would be responsible for regulating external audit services.
- Councils appointing their own external auditors.
- An enhanced role for audit committees, including giving them responsibility for advising on whether non-audit work should be carried out by external auditors and potentially receiving whistle blowing complaints and ensuring they are investigated.
- The appointment of independent Chairs and Vice-Chairs of Audit Committees and a majority of independent members of Audit Committees.
- The consultation also asks whether councils should be required to produce annual reports containing specified information.

Whilst supportive of large elements of the proposals, including introducing more independent members, the Council wants to raise a number of issues for DCLG to consider as it concludes on its thinking. A draft detailed response is set out at Appendix A to this report.

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**Proposals**

Members are asked to support or recommend amendments to the draft responses attached at Appendix A to this paper.

Members assess the benefit of attending other Audit Committees to observe the role of independent members and to discuss with those bodies the benefits and key issues to be aware of in appointing independent members.

**Reason for Proposal**

DCLG has sought feedback on its proposals on the future of local public audit, and the Audit Committee will play a key role in that future and is considered the right forum for this to be discussed, considered and formulate a response.

Michael Hudson  
**Chief Finance Officer**

AUDIT COMMITTEE

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Key Decision: No

**PURPOSE OF REPORT**

1. This report sets out the key issues contained within a consultation document issued by the Department for Communities and Local Government (DCLG), entitled the Future of Local Public Audit. It also sets out Wiltshire Council's proposed response to the proposals out for consultation.

**BACKGROUND**

2. On 13 August 2010, The Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and "re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions".
3. In April 2011 the Department for Communities and Local Government (DCLG) then issued a consultation paper: "Future of local public audit", that sets out the Government's vision. The consultation is wide ranging and provides details of the Government's proposals to change the audit of local councils and other local public bodies (although not Pension Funds), and consults on a range of other related issues.
4. The Government intentions are to build upon the framework for external audit present in the private sector, supplementing it with additional features and safeguards where necessary. In summary the Government intentions are as follows:
  - To require the National Audit Office to prepare Codes of audit practice, which prescribe the way in which external auditors are to carry out their functions. Such Codes of practice will continue to be approved by Parliament. (This function is currently the responsibility of the Audit Commission).
  - To require the accountancy professional bodies, under the supervision of the Financial Reporting Council (FRC), to be responsible for the registration of audit firms, individual auditors able to undertake public audit and for the monitoring and enforcement of audit standards. (The FRC currently has this role for private sector audit work).

- Principal local authorities, defined as those with annual income and expenditure over £6.5million, would appoint their own auditors with decisions made by full Council, taking into account the advice from a new independently chaired audit committee.
5. The paper includes 50 consultation questions including 41 questions for principal authorities, such as Wiltshire Council, and 9 for smaller bodies. It is proposed to respond to the 41 questions for principal authorities and comment on other areas.
  6. The remainder of this report highlights the key points of the consultation and suggests the Council's response. The consultation questions and the Council's comments are attached at Appendix A along with a draft response from the Council.
- ***Regulation of Local Public Audit***
7. Once the Commission has been abolished, there is a requirement for local public audit to be regulated differently. The consultation paper describes how other sectors regulate audit work and then makes recommendations that would result in regulation becoming similar to the arrangements adopted in the private sector.
  8. Under the Companies Act 2006, private sector external audit is regulated by the Financial Reporting Council (FRC). This includes having statutory powers delegated to it for the recognition and supervision of the professional accounting bodies who supervise the work of their members. The professional accounting bodies, as Recognised Supervisory Bodies (RSBs) are, in turn, responsible for putting rules and regulations in place which their members must fulfil before they can be a registered auditor.
  9. The consultation paper sets out proposals to adapt the regulation of audit work in the private sector for use in local public bodies in the following ways:
    - The National Audit Office would develop and maintain Codes of audit practice and any supporting guidance.
    - The Financial Reporting Council would regulate who can undertake local public audit
    - Recognised Supervisory Bodies would be responsible for monitoring the quality of audit work undertaken by their members, investigating complaints and disciplining their members as required. They could also stop an audit firm from being eligible for appointment as a public auditor on grounds of suitability or quality. Essentially, this means that there will be a list of audit firms who are recognised as qualified to undertake public audit work (referred to as the register of local public statutory auditors). The list could be kept by the RSBs or another body.

**Wiltshire Council comments:**

10. The Council agrees with the proposals for the regulation of local public audit. As part of this, we believe the National Audit Office (NAO) should be responsible for maintaining and reviewing the register of statutory local public auditors, with support or advice from the Financial Reporting Council as necessary.
11. We also believe that the NAO should be required to approve any 'Recognised Supervisory Bodies' and require any bodies to demonstrate to the NAO that they are supervising auditors in accordance with appropriate standards.
12. Overall the consultation proposes a decentralisation of responsibilities from the Audit Commission to local government. It is not clear that this move will provide any genuine choice or flexibility in the provision of services to local people as there is currently a limited number of suppliers, of which Wiltshire has one of the private sector providers anyway (KPMG LLP). Instead there is a risk that the new arrangements will involve the whole of local government in commissioning and regulatory activity that takes far more time and costs more than existing practices.
13. As such one of the premises on which the consultation is based - that of the fact that the introduction of a competitive process for the appointment of external auditors will reduce the level of fees paid is potentially flawed. In addition, if some or all of the most burdensome options set out in the consultation paper are selected, this would also have an impact on the overall cost of the audit. There is a high risk therefore that unless the scope of the audit is also addressed there will be no strong downward pressure on audit fees and that audit fees will either remain at similar levels to those charged currently or increase in future years.

**- *Commissioning Local Public Audit Services***

14. The consultation paper proposes that all larger local public bodies (defined as those with income/expenditure over £6.5million) will be able to appoint their own external auditor. The appointed auditor must be on the register of local public statutory auditors.
15. To ensure that the relationship between council and auditor does not become too close, a system of rotation is proposed. The auditor would be reappointed annually by the full council on the advice of the audit committee, but the audited body must undertake a competitive appointment process within five years. The council can, if it wishes, re-appoint the existing external auditor for a further five year period, but must appoint a different audit firm at the end of the second five year period.

**Wiltshire Council comments:**

16. The Council agrees with the proposals for the appointment of external auditors.

- **Proposals for new Audit Committees**

17. The consultation proposes that each larger public body should have an audit committee with 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.
18. The consultation paper recognises that there is more than one way of arranging such an audit committee but sets out the following possible structure:
  - The audit committee chair and vice-chair would both be independent of the local public body (i.e. not elected members).
  - The elected members on the audit committee should be non-executive, non-cabinet members sourced from the audited body. At least one should have recent and relevant financial experience, but with a recommendation that a third of the members have recent and relevant financial experience where possible.
  - There would be a majority of members of the committee who are independent of the local public body.

**Wiltshire Council comments:**

19. The Council agrees with the principle that elected audit committee members should be non-executive, non-cabinet members. We also agree with the requirements for relevant financial experience, although it would help if 'relevant financial experience' could be defined. To this end Members may wish to observe other audit committees, such as an RSL or PCT, to see how the role of an independent works and assess the benefits and issues to consider.
20. Wiltshire Council has an Audit Committee consisting of 15 elected Members who, collectively, have a wide range of skills and experience, including a number with a finance background. The proposals set out in the consultation for independent members are not new; Wiltshire Council has had independent members on both Standards Committees and District Audit Committees prior to unitary status. As such the Council agrees with CIPFA guidance that the appointment of independent audit committee members can bring additional expertise to audit committees and, therefore, make them more effective, provided the right appointments are made and it is the governance of that that is essential.
21. The Council feels however that Members should retain the primary responsibility for meeting these requirements, including making appropriate audit committee arrangements. Wiltshire Council therefore agrees that local authorities should consider the appointment of independent Chairs / Vice-Chairs and a majority of independent members, where appropriate, but disagrees that these should be of legislation.

22. DCLG might want to make it a statutory requirement for local authorities to establish Audit Committees to operate in accordance with CIPFA or other relevant guidance.

- **Scope of audit**

23. The consultation paper presents four possible options for the scope of the audit of councils. These are:

*Option one:* The scope of the audit would become similar to private companies with the auditor giving an opinion on the financial statements and reviewing and reporting on other information published with the financial statements. There would be no assessment of value for money under this option.

*Option two:* The scope would be similar to the current system in local government, with auditors providing an opinion of the financial statements, concluding as to whether there were proper arrangements to secure value for money and reviewing and reporting on other information including the annual governance statement.

*Option three:* New arrangements to provide stronger assurances on regularity and propriety, financial resilience and value for money.

*Option four:* A new requirement for councils to prepare and publish an annual report, which would be reviewed by the auditor with them providing reasonable assurance on the annual report.

24. Auditors would continue to have the power to prepare public interest reports, with the costs of such reports being recovered from the audited body.

**Wiltshire Council comments:**

25. Wiltshire Council supports option one, with an audit that is carried out in a similar vein to that of a private company. The Council feels that there are sufficient other arrangements in place to make assessments on value for money and governance, including the role of the Audit Committee. The Council also now publishes all expenditure over £500 and holds regular public events where questions of value for money are addressed. The Council feels it should not be necessary to broaden the work done (and associated costs) in relation to regularity, financial resilience and VFM.

26. Wiltshire Council agrees with increasing transparency and improving reporting to the Public and agrees the external auditor could have a role in ensuring any annual report is consistent with the Council's activities. However, it would be important to limit any additional requirement on the external auditor to ensuring consistency only, as any detailed audit requirement could not be supported if the work proved costly. If this could not be achieved, Councils could be given guidance on the production of annual reports and left to implement this themselves as appropriate.

- **Other Proposed changes**

27. The document identifies proposals for various other miscellaneous matters that are part of the existing Audit Commission framework. These include:

- Giving external auditors a right to produce public interest reports where necessary.
- Extending arrangements allowing external auditors to carry out non-audit work. Proposals in this regard include a role for the Audit Committee in providing advice on whether any non-audit work should be undertaken.
- Giving audit committees 'prescribed person' status under the Public Interest Disclosure Act 1998 for disclosures relating to "the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies". (*Note - the Public Interest Disclosure Act 1998 (PIDA) is popularly known as a 'Whistleblowers' protection act. It protects employees who make disclosures about a range of subjects from recriminations. Whistleblowers can claim PIDA protection by disclosing their concerns either to their employer or, if they prefer, to another organisation authorised to receive disclosures (a 'prescribed person')*).
- Retaining provisions in relation to the Public's right to inspect local authorities' accounts, but removing the Public's right to make objections to the accounts.
- Introducing options for smaller body audits, including parish and town councils that cover the appointment and assurance of independent examiners and auditors dependent upon the scale of the bodies' income and/or expenditure.

**Wiltshire Council comments:**

28. Wiltshire Council agrees in principle to the suggestions. We would, however, make the following comments for the CLG to consider in finalising its proposals:

- CLG might want to consider whether the NAO could have an oversight role in relation to public interest reports in case the need arises to have an arbiter between the public body and the auditor
- some electors create substantial amounts of work and cost to councils in responding to questions on the accounts. The opportunity should be taken to limit the amount of time and cost involved in responding, by enabling councils to manage responses where a financial cost limit is likely to be exceeded, in the same way as is applied under the Freedom of Information Act (FOI).

29. On the issue of smaller bodies we do not feel that the proposals meet with the current localism plans. The proposals place too much burden on the local authority and the benefits will not outweigh the costs. As such we suggest this area of the proposal should be reconsidered.



## **Implications**

30. This report is in response to a DCLG consultation and does not have any recommendations to change the Council's current policy or decision making framework.

## **Risks assessment**

31. Most of the proposals included in the consultation paper include logical proposals for the future of public audit following the abolition of the Audit Commission. Proposals relating to the appointment of independent audit committee members are more profound. If we do not respond to the proposals, there is a risk that our views are not taken into account and proposals that we disagree with are imposed upon local authorities.

## **Equalities and diversity impact of the proposals**

32. None, although if independent members were appointed the Council would need to follow its existing policies and procedures regarding appointments.

## **Financial implications**

33. There are no direct financial implications associated with this paper.

## **Legal Implications**

34. None have been identified as arising directly from this report.

## **Proposals**

35. Members are asked to support or recommend amendments to the draft responses attached at Appendix A to this paper.

36. Members assess the benefit of attending other Audit Committees to observe the role of independent members and to discuss with those bodies the benefits and key issues to be aware of in appointing independent members.

## **Reasons for proposals**

37. DCLG has sought feedback on its proposals on the future of local public audit, and the Audit Committee will play a key role in that future and is considered the right forum for this to be discussed, considered and formulate a response.

## **Background Papers and Consultation**

Future of local public audit, Consultation paper by the Department for Communities and Local Government

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### **Appendices:**

Appendix A: Consultation questions and the Council's proposed response

**Future of Local Public Audit – Consultation Questions and Response from Wiltshire Council**

Consultation Question	Draft Response
<p>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>	<p>The authority agrees that the correct design principles have been considered and that the proposals in the document substantially meet these design principles.</p> <p>Although we note that there are extensive provisions already in place to allow for the transparency of public expenditure decisions. As such we challenge whether a complete overhaul of public sector audit arrangements is needed to further increase transparency and dispute the level of appetite for greater transparency in public sector accounts per se.</p> <p>We also question whether the introduction of a competitive process for public audit contracts will provide for the possibility of lower fees. It cannot provide a guarantee that this will be the result. In fact unless the scope of the audit as discussed further on in our response, is addressed, there is a very real risk that fees will increase rather than decrease over time. In addition, there will be a hidden but real cost resulting from hundreds of individual organisations, including the 250+ parish councils in Wiltshire, becoming responsible for their own external audit procurement process. Also, if some or all of the most burdensome options set out in the consultation paper are selected, this would also have an impact on the overall cost of the audit.</p> <p>We also point out that there is nothing inherent within the proposal that indicates the likelihood of any change to existing standards of auditing.</p> <p>Wiltshire Council notes however that the proposals do not cover Pension Funds and would ask DCLG to clarify either the reason for this or to identify proposals for those bodies, of which Wiltshire Council is custodian.</p>

Consultation Question	Draft Response
2 Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?	We have no comments on this question
3 Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?	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?	Yes, although there should be a limit on the cost that should be charged to local Councils.
5 Who should be responsible for maintaining and reviewing the register of statutory local public auditors	<p>We believe the National Audit Office (NAO) should perform this role, with support or advice from the Financial Reporting council as necessary.</p> <p>We also believe that the NAO should be required to approve any 'Recognised Supervisory Bodies' and require any bodies to demonstrate to the NAO that they are supervising auditors in accordance with appropriate standards.</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>CLG could consider an assessment process for new firms. Firms must be able to demonstrate they could carry out the wide scope of public audit as described in paragraph 1.19 of the consultation paper.</p> <p>In addition to routine quality assurance arrangements outlined in the paper, DCLG could also require a specific quality assurance check on new firms' performance after, say, two years of an audit appointment, with positive confirmation required of a firm's ability to undertake public audit.</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?	Firms must be able to demonstrate they could carry out the wide scope of public audit as described in paragraph 1.19 of the consultation paper.

Consultation Question	Draft Response
<p>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?</p>	<p>There should be no distinction in local councils and all councils should be subject to the same regulation.</p>
<p>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?</p>	<p>There should be no distinction in local councils and all councils should be subject to the same regulation. Any additional oversight should be provided to the NAO as a power to use exceptionally, rather than a requirement. In this way, the power could be used when necessary while minimising costs.</p>
<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?</p>	<p>It would be the role of the regulator to carry out or commission any investigation deemed necessary under any additional regulation powers.</p>
<p>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>	<p>The proposals appear fine, although clarification of what is intended by "... with opportunities for the electorate to make an input" would be helpful.</p> <p>With regard to proposals for ensuring joint procurement, we feel this should be an option and not a requirement as geography and other factors such as systems may not make this a sensible approach.</p>
<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>	<p>The criteria documented for choosing independent members seems to focus primarily on avoiding conflicts of interests. The Council's view is that the effective operation of Audit Committees would be better served by focussing on the skills and experiences of Committee members appointed and through specifying skills to assess when appointing. A well-informed, highly motivated and interested committee member, even if they are not 'independent' is likely to prove more</p>

Consultation Question	Draft Response
	effective than one who does not possess the skills, desire and time to apply to the demands of the role, however independent they are.
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?	We believe it is necessary for members to have financial expertise, although It is imperative that any member of the Audit Committee has the widest appropriate skills and experience that enhances the overall performance of the Committee. Whilst accepting that training can support this process, it would be beneficial that any member had some expertise that they bring with their appointment. Such expertise should not be limited just to finance but could include areas such as performance management, risk management and audit.
14 Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	The Council has not experienced difficulties in the past and does not feel remuneration would be required if meetings were minimal and set around a prescribed annual cycle of 4 -5 meetings.  However, the Council accepts that this may not be possible for other parts of the Country as the size of the potential number of candidates will in some way be dependent on the expectations of the skills that independent members must have. It is likely that the more expectations exist about skills and experience, the smaller the pot of talent is likely to be in some areas due to the makeup of local businesses. The Secretary of State will need to issue legislation to enable an independent chair to having voting powers.
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	The Council welcomes the principal of increasing independent representation on the Audit Committee to help strike a balance between objectivity and an in-depth knowledge of the issues.  The Council's view is that any new regulation

Consultation Question	Draft Response
ensuring a decentralised approach?	should stipulate the level of independent membership, ideally setting this at a minimum of one and certainly not trying to impose more 50% independent membership or that the chair must be independent.
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?	<p>The Council feels that Option 2 on page 28 of the consultation papers best reflects to requirements of an effective audit committee, including providing a robust role for the audit committee in ensuring independence of the auditor.</p> <p>However, the Audit Committee should make recommendations to the Council about policy on the provision of non-audit work, rather than setting the policy. It should be for the Council to set policy.</p>
17 Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	<p>We agree the responsibilities set out in Option 2 on page 28 of the consultation are appropriate.</p> <p>The Council feels that the Chartered Institute of Public Finance and Accountancy (CIPFA) and the NAO should produce guidance on the role of audit committees, and that it should not be necessary for the detailed responsibilities to be specified in legislation.</p> <p>DCLG might want to consider including in legislation the Audit Committee's role in relation to the appointment of auditors.</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?	The process for the appointment of an auditor should be set out in the guidance produced by CIPFA and the NAO (referred to above in response to question 17).
19 Is this a proportionate approach to public involvement in the selection and work of auditors?	The reasons for public representation and definition of 'material' should be clearly laid down so that vexatious reasons cannot be taken into account

Consultation Question	Draft Response
	and delay the process.
20 How can this process be adapted for bodies without elected members?	We have no comments on this question
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?	We have no preference between the options stated. DCLG could require the person responsible for the financial administration of the Council under Section 151 of the Local Government Act 1972 (the Section 151 Officer), to advise the Secretary of State if the Council has failed to appoint an auditor by a specified date, which we suggest could be 30 June in the year in question (i.e. 30 June 2012 for the year 2012/13).
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?	Notification should be required by exception, using the approach referred to above in response to question 21.
23 If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	As per the responses above to questions 21 and 22, the Secretary of State for CLG should be notified where an appointment has not been made.
24 Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	In principle we agree with this proposal, however assessment needs to be made of the level of choice within certain reasons, and we feel that it may be possible to have the period for a longer term, say another 5 years if the Appointed auditor is rotated after 6 or 7 years as is currently the case.
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?	The relevant ethical standards are established and should provide sufficient safeguards.
26 Do the proposals regarding the	Yes, but please note comments in



Consultation Question	Draft Response
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 to question 24.
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, we agree the proposals provide sufficient safeguard.
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?	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?	<p>Wiltshire Council supports option one.</p> <p>The Council feels it should not be necessary to broaden the work done (and associated costs) in relation to regularity, financial resilience and VFM. Wiltshire Council agrees with increasing transparency and improving reporting to the Public and agrees the external auditor could have a role in ensuring any annual report is consistent with the Council's activities.</p> <p>However, it would be important to limit any additional requirement on the external auditor to ensuring consistency only, as any detailed audit requirement could not be supported if the work proved costly. If this could not be achieved, Councils could be given guidance on the production of annual reports and left to implement this as appropriate.</p>

Consultation Question	Draft Response
<p>30 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>Wiltshire Council feels that local public bodies should be required to set out their performance and plans in an annual report. The reasons being it:</p> <ul style="list-style-type: none"> <li>• Provides the community with a tool to extend their understanding of how council money is spent and what services are provided for that money. Subsequently it will provide information for the community to hold the council to account.</li> <li>• Provides assurance and transparency to the local taxpayer in a meaningful and consistent format</li> <li>• Is a good management information tool for managers</li> <li>• Much of the information will be readily available throughout the organisation</li> <li>• Is a good single point of references for customers, auditors and staff at all levels in the organisation</li> <li>• Could be utilised for comparison purposes by other organisations and potentially reduce individual request for similar information.</li> </ul>
<p>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?</p>	<p>Yes – see above in response to question 30.</p>
<p>32 Should the assurance provided by the auditor on the annual report be ‘limited’ or ‘reasonable’?</p>	<p>The external auditor should be required to give reasonable assurance that the annual report is consistent with their knowledge of the organisation. However, any other form of opinion is outside of the scope of the current International Auditing Standards and as such would not be possible.</p>

Consultation Question	Draft Response
<p>33 What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?</p>	<p>DCLG should produce and maintain guidance relating to the provision of annual reports, or highlight sector-led guidance that councils could follow. Any guidance should take into account the objectives of an annual report, outlined above in response to question 30, as well as any more formal requirements, for example to ensure the accuracy and consistency of financial information included.</p> <p>DCLG might want to stipulate minimum information requirements, which might in turn assist with comparison /benchmarking across councils. However, there should also be flexibility for councils to include information that is important to local stakeholders. DCLG may also want to stipulate a timetable for the publication to ensure the information is timely.</p> <p>Above all this should not be a costly exercise to produce 'glossy magazines' that add no value to the council tax and business rate payers of the local community.</p>
<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?</p>	<p>Yes, although DCLG might want to consider whether the NAO could have an oversight role in relation to public interest reports in case the need arises to have an arbiter between the public body and the auditor.</p>
<p>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?</p>	<p>Yes, although thresholds should be set above which the Audit Committee should take the decision based on advice about other providers.</p>

Consultation Question	Draft Response
<p>36 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>Yes, an appropriate balance would be achieved through the proposals.</p>
<p>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?</p>	<p>Yes, we agree</p>
<p>38 Do you agree that we should modernise the right to object to the accounts? If not, why?</p>	<p>Yes, we agree</p>
<p>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?</p>	<p>It is not clear in sections 4.52 to 4.54 what changes to the current process are being proposed. The difference between raising objections to the accounts and making representations to the auditor is not sufficiently well defined to establish whether the process is the most appropriate one or not.</p> <p>However, it is worth drawing to DCLG's attention that some electors create substantial amounts of work and cost to councils in responding to questions. The opportunity should be taken to limit the amount of time and cost involved in responding, by enabling councils to manage responses where a financial cost limit is likely to be exceeded, in the same way as is applied under the Freedom of Information Act (FOI). To ensure though Council's take all cases seriously the responses should be assessed.</p>
<p>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?</p>	<p>Yes, we agree, although we do not see occasions where the external auditor would hold information the Council had not already been asked. So FOI for the</p>

Consultation Question	Draft Response
If not, why?	external auditors will relate more to its services. As such we would not want to see additional costs passed on to the Council.
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)?	It is not felt that there would be any significant impact on the auditor / audited body relationship. However, in relation to costs and audit fees, experience shows that some electors submit substantial requests under the FOI and if the cost of auditors' responses are passed on to councils, this could have a significant cost implication and CLG should look at ways of limiting such costs.
42 Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	<p>Option 2 supports the current agenda of localism, but would lead to significant costs if smaller bodies such as Parish Councils are required to establish Audit Committees. We consider current proposals sufficient to negate this additional need.</p> <p>Both proposals within the consultation set out unnecessary levels of bureaucracy and burdens for the benefits to be gained and we suggest that DCLG completely review these proposals.</p>
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?	<p>We do not agree with this. This places considerable additional burdens on the Council and the Section 151 Officer.</p> <p>We agree with the limits suggested in the Table on page 51 and feel that the smaller bodies should be allowed to manage the process themselves under the spirit of localism. Local authorities should seek assurances by exception from Clerks that an examiner or auditor has been appointed, as for local authorities to the NAO discussed above. The examiner or auditor should have the independent ability to draw the Section</p>

Consultation Question	Draft Response
	151 Officer's attention to any matter he/she feels necessary in discharging their duties.
<p>44 What guidance would be required to enable county/unitary authorities to:</p> <p>a.) Appoint independent examiners for the smaller bodies in their areas?</p> <p>b.) Outline the annual return requirements for independent examiners?</p> <p>Who should produce and maintain this guidance?</p>	<p>This is covered above.</p> <p>Any guidance should be set by the NAO to ensure consistency with the audit of all public bodies.</p>
<p>45 Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?</p>	<p>Addressed in response to questions 42 and 43.</p>
<p>46 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?</p>	<p>Addressed in response to questions 42 and 43.</p>
<p>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?</p>	<p>The approach suggested is logical.</p>
<p>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?</p>	<p>No comment</p>
<p>49 Is the process set out above the most appropriate way to deal with issues</p>	<p>Addressed in response to questions 42 and 43.</p>

<b>Consultation Question</b>	<b>Draft Response</b>
raised in relation to accounts for smaller bodies? If not, what system would you propose?	
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?	Addressed in response to questions 42 and 43.