



Report of the Director of Resources

Corporate Governance and Audit Committee

Date: 15th June 2011

Subject: Future of Local Public Audit; Consultation Response

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Executive Summary

Communities and Local Government (CLG) published a consultation paper on the Future of Local Public Audit on 30th March 2011. The consultation paper sets out the vision for the future of local audit. This vision is based on four principles. The first of these is localism. When reforms are complete the Council will be free to appoint their own independent external auditors from a competitive and open market. The second is transparency; the Council will become increasingly accountable for their spending decisions to the people who ultimately provide their resources. The third is to remove the overheads charged by the Audit Commission to service the central government machine. At a time when action is being taken to reduce the deficit, it is important that the framework for public audit reduces the overall cost of audit to Councils. The fourth principle is high standards of auditing. The intention is that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.

In the consultation document, CLG have asked a series of questions about the regulation of local public audit, commissioning audit services and the scope of audit services. Attached as appendix A to this report is a suggested response to CLG and Members are invited to comment on the draft response.

In summary, the consultation proposes that Councils will be able to appoint their own external auditors. This task is currently undertaken by the Audit Commission. It is envisaged that this will reduce the cost of audit. As a result of these proposals, there are a number of other proposals upon which CLG are consulting. These proposals are, in some degree, as a consequence of Councils appointing their own auditors and are aimed at safeguarding the independence of external auditors.

There are also proposals about changes to the scope of the external audit. Currently a statutory code of practice determines that, in summary, the scope of the audit will be an

opinion on the financial statements and a conclusion on whether there are proper arrangements for securing value for money. Options include abolishing the requirement to provide a conclusion on arrangements for securing value for money, adding a requirement to provide a conclusion on arrangements for ensuring regularity and propriety and adding a requirement to provide an assurance on a proposed new requirement for Councils to publish an annual report. Such changes are not contingent on the abolition of the Audit Commission but are presented as part of the same 'package' of changes.

The consultation document also proposes changes to the role and composition of the audit committee. Proposals include mandating an audit committee and requiring that the committee made up of a majority of members independent of the Council, including an independent chair and vice-chair. This proposal is, to a large extent, aimed at countering claims that appointing your own auditors would undermine the independence of external auditors and this essential safeguard. In short, Councils will be able to appoint their own auditors but those recommending to the Council the appointment (or removal) of a given firm would be independent of the Council.

Members are requested to note this report and comment on the draft response to the consultation. Members' comments will then be incorporated and the Council's response sent to CLG. Members are requested to ask for an update report when CLG have considered all responses.

Update from CLG dated 2nd June 2011

We have recently received an update from CLG and to help ensure Members are kept informed of development, a summary is included here.

Councils have been updated on Governments plans to secure a value for money transfer of the Audit Commission's in-house practice to the private sector. Ministers' initial view is that the best value option is to outsource all the audits currently undertaken by the Commission's in-house practice to the private sector and have asked the Commission to design a procurement process for outsourcing the 2012/13 audits. It is envisaged in-house bids from a new employee owned mutual will be possible.

1.0 Purpose Of This Report

- 1.1 CLG are consulting on some fundamental changes to the local public audit regime. This paper attempts to highlight the main issues and concerns and allows Members the opportunity to shape and influence the Council's response to the consultation exercise.

2.0 Background Information

- 2.1 On 13th August 2010 the Secretary of State for CLG announced that the Audit Commission is to be disbanded. A report was presented to Corporate Governance and Audit Committee on 29th September 2010 that highlighted the main issues as the ending of the Audit Commission's responsibilities for overseeing and delivering local audit and inspection, an ending of the Audit Commission's research activities, moving the Audit Commission's provider arm into the private sector and allowing Councils to appoint their own auditors. The consultation paper is, in part, a response to the implications of disbanding the Audit Commission.

3.0 Main Issues

Regulation of local public audit

- 3.1 Since it was established in 1983, the Audit Commission has acted as regulator, commissioner and provider of audit services. The Audit Commission prepares, for approval by Parliament, codes of practice that prescribe the way in which auditors carry out their functions. Under the new arrangements, the National Audit Office (NAO) would assume responsibility for the codes but they would continue to be approved by Parliament. Registration of auditors and monitoring and enforcement of standards would be undertaken by the accountancy professional bodies under the supervision of the Financial Reporting Council. Given the impending demise of the Audit Commission, such arrangements appear reasonable.

Commissioning

- 3.2 A key consideration in determining how audit services should be commissioned is ensuring there are measures to safeguard the independence of the auditor. The consultation suggests an approach whereby the auditors are appointed by full Council, having regard to the advice of the audit committee and having regard to the electorates input to the deliberations. There is also a suggestion that Councils should co-operate to ensure wide competition for external audit contracts and work together to procure external auditors.
- 3.3 External auditors' independence would be maintained by requiring that the majority of audit committee members are independent of the Council. This could potentially create issues for the audit committee at Leeds because the Corporate Governance and Audit Committee have a wider remit than a traditional audit committee that oversees the relationship with the external auditors. The wider remit of this committee has resulted in a more proactive approach to maintaining a robust and appropriate control environment and can be evidenced by the range of assurances gathered in support of the annual governance statement and the improvement action plan that results from any year's statement. These wider arrangements (and indeed the relatively straight forward task of appointing external auditors) should be undertaken by a committee of the Council with the constitutional power, delegated authority and democratic mandate to perform such a function. It is difficult to envisage why such functions should be undertaken by a committee in which elected members are in the minority.

Role of the Audit Committee

- 3.4 The consultation envisages providing in legislation a role for the audit committee in appointing and maintaining the independence of external auditors. It also suggests that any legislation would not limit the scope of the audit committee to such activities. It is suggested that the audit committee could receive and evaluate any bids. This would appear impractical; the role of the audit committee ought to be approving the evaluation criteria against which bids will be judged and requiring officers, under existing and well established arrangements, to let the contract.
- 3.5 The consultation paper provides two options for the role of the audit committee. One option provides a narrow role on engaging and resignation or removal of the auditor and the second option provides a more detailed mandatory role on managing the relationship with the external auditor. The role of the audit committee should not preclude local options to include within the terms of reference the wider, 'value added' role of the Corporate Governance and Audit Committee around improvements to the control environments, the annual governance statement and the significant role undertaken by Internal Audit in providing evidence based opinions on the control environment.
- 3.6 The consultation suggests that the public ought to have the opportunity to make representations to the audit committee on the firms selected to submit tenders to become the external auditors. It is unclear at this stage what issues CLG had in mind that the public might want to make representations about. Indeed, it could be argued that elected members are best placed to represent the views of the electorate and there is no need to legislate for direct public involvement in post-appointment representation. Such a position might be different if CLG legislate for independent audit committees with elected members being in the minority.

Scope of audit and the work of auditors

- 3.7 The consultation presents 4 options for the scope of the audit
- A reduced scope; giving an option on whether the accounts present a true and fair view and a review of other information presented with the accounts
 - Retain the current scope, that is, giving an option on whether the accounts present a true and fair view and a review of other information presented with the accounts and a conclusion on whether there are proper arrangements in place to secure value for money
 - As the second option but, additionally, a requirement to provide a conclusion on regularity, propriety and financial resilience
 - an option on whether the accounts present a true and fair view, a review of a new requirement to produce an annual report of the Council's activities and an assurance on the annual report.
- 3.8 There are a number of factors to take into account when determining the preferred option. There is a clear risk that extending the scope of the external auditors will increase the fee; it is unclear whether the additional fee would eliminate the savings that are envisaged by CLG in disbanding the Audit Commission and promoting competition. Assurances on regularity, propriety and financial resilience are currently provided to the Corporate Governance and Audit Committee from a number of different sources but most notably from Internal Audit. Councils with good, statutory Code of

Practice compliant Internal Audit functions, will already be getting these assurances but the question remains, is there any added value from paying for wholly independent external audit assurance on these matters?

- 3.9 The requirement for the Council to produce an annual report of the key business activities is an interesting development. In principle, the idea of producing a single document on, presumably, successes and challenges in any given year, has some merits. It could be argued that the Council currently produces such reports, but not in single concise document produced for the electorate.

Arrangements for smaller bodies

- 3.10 CLG propose different arrangements for smaller bodies (likely to be defined as bodies with income or expenditure less than £6.5m). In large part, arrangements for smaller bodies are a matter for such smaller bodies to determine; Leeds City Council clearly not being a smaller body. Moreover, the consultation proposes that principal bodies, like Leeds City Council, could be responsible for appointing independent examiners of smaller bodies in their area. In this context, smaller bodies could be town councils or large parish councils. Independent examiners are the equivalent of auditors for smaller bodies but the review is proportionate to the size of the organisation and the review a 'lighter touch'. The proposed response is that the Council would not wish to take on the function of audit (or independent examiner) commissioners for smaller bodies.

4.0 Implications For Council Policy And Governance

- 4.1 At this stage, the implications for governance are unclear, particularly if the proposal to require a majority of independent members on the audit committee gains favour. The issues are discussed in section 3 of this report.
- 4.2 The Audit Commission appointed auditors to the Council are KPMG. The term of their appointment concludes with the audit of the 2011/12 accounts. On the assumption that Councils will be able to appoint their own auditors, a contract will need to be let in 2011/12 to commence with the audit of the 2012/13 accounts in mid-2013.
- 4.3 The risks arising from this consultation will be identified when there is a clear indication of the results of the consultation.
- 4.4 This report does not contain any exempt information.
- 4.5 This report does not relate to a key decision and seeks members input to a consultation process and is therefore not subject to call-in.
- 4.6 The purpose of the report is to seek members input to a consultation process and therefore at this stage, does not have any constitutional or legal implications at this stage.
- 4.7 There are no equality and diversity, nor cohesion and integration issues arising from this report.

5.0 Legal And Resource Implications

- 5.1 Letting a contract for the provision of an external audit service will be a time consuming task. Once the position is clearer, and nearer the time, the Council will need to explore opportunities for collaboration, not least in terms of a specification and tender evaluation criteria. That said, one of the stated intentions of the reforms is to reduce the cost of audit. The fee for 2011/12 is £513,000 (excluding grant claims) and early

estimates vary but some commentators suggesting savings of up to 20%. Conversely, the Audit Commission is warning that in some Councils, the cost may rise.

6.0 Conclusions

- 6.1 Given that the Audit Commission is to be disbanded, CLG need to put in place arrangements to discharge the functions of the Audit Commission. Many of the arrangements about the practicalities of appointing auditors can be readily managed by Councils acting on their own or in collaboration with others. In short, the details can be worked out and implemented. There are however concerns about audit committees discharging their current and proposed new responsibilities when independent members are in the majority, we would not wish any 'democratic deficit' to be further increased in this manner. Democratically elected back bench members (i.e. those not part of the executive or scrutiny function) can readily discharge the new and old responsibilities of an audit committee.
- 6.2 In addition, the case for a Council annual report has not been firmly established but does, on the face of it, have some merits. It is debatable whether such a requirement should be introduced on the back of arrangements for Councils to appoint their own auditors but an annual report of this nature could assist in engaging the public and promoting transparency.
- 6.3 Members are requested to note this report and comment on the draft response to the consultation. An introductory section has been added to the pro forma consultation response that outlines the good work being done by this committee. It therefore proposed that CLG are invited to Leeds to see that work first hand and offers the Council's assistance in formulating proposals. Following consideration of the draft, Members' comments will be incorporated and the Council's response sent to CLG. Members are requested to ask for an update report when CLG have considered all responses.

7.0 Recommendations

- 7.1 Members are requested to note this report and comment on the draft response to the consultation. Members' comments will then be incorporated and the Council's response sent to CLG. Members are requested to ask for an update report when CLG have considered all responses.

8.0 Background Papers

8.1 Background Documents Used

Future of Local Public Audit, consultation (CLG, 30th March 2011). The full document was previously circulated to Members of Corporate Governance and Audit Committee and can be accessed from the following link:

<http://www.communities.gov.uk/documents/localgovernment/pdf/1876169.pdf>

Consultation on Future of Local Public Audit

Name of consultee Leeds City Council – **DRAFT RESPONSE**

Leeds City Council welcomes the opportunity to respond to the consultation on the future of local public audit. The Council recognises the significance and implications of the issues upon which we are being consulted. Accordingly, the Council's response has been debated at both the Corporate Leadership Team (Chief Executive and Directors) and the Corporate Governance and Audit Committee. At Leeds, we consider that we have a highly effective audit committee that considers a wide range of corporate governance issues. This isn't just our view, our auditors, KPMG, endorse the view.

The Corporate Governance and Audit Committee actively seeks assurance that key policies and procedures are up to date, fit for purpose, effectively communicated, routinely complied with and monitored. We also do the more 'traditional' audit committee activities such as challenge and approve the accounts and oversee the Council's relationship with our auditors. The focus of the committee is very much on receiving evidence based assurances on the control environment and improvement of the Council's corporate governance arrangements. A key factor in making this approach work is a firm understanding of the entire control environment and an annual work programme that requires evidence based assurance and improvement action plans. Assurance are sought in a number of areas, for example, risk management arrangements, procurement procedures to support the deliver of value for money and budgeted savings, bi-monthly reports on the activity of Internal Audit and the transparency of decision making arrangements to name a few. We would like to extend an invitation to CLG to come and see how Corporate Governance and Audit Committee operates and engage with Councillors and officers to work on proposals following the consultation exercise. Contact details are at the end of the response.

We would also be happy to share some of our experiences. We would be willing to help specify the councillor training on effective audit committees to which we refer in the answers below. Similarly we would be happy to work with all partners to develop proposals so that the wider local government community can work with and support 'weaker' audit committees as part of a mentoring scheme. There is a role for NAO in developing a contract specification; we would be willing to offer our assistance.

We look forward to seeing the results of the consultation but would express concern that there are far too many questions. For the consultation exercise to be effective, CLG need to carefully reflect on whether a nil response indicates consent to the proposal or whether Councils have prioritised and responded only to those questions that relate to matters of principle, rather than detail.

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?

The design principles are correct but there are a number of inconsistencies that need to be addressed, particularly the relationship between the principle of transparency and localism. Localism would suggest that Leeds (like any other Council) is best placed to determine the functions of an audit committee that would best suit local needs. We should be able to determine the audit committee role in receiving regular assurances, improving

the control environment and adding value. We accept that you may wish to 'legislate' for the audit committee role in appointing external auditors.

The consultation rightly identifies localism as a design principle but also mentions appropriate safeguards to the independence of the appointed auditors. We consider that the proposed safeguard (i.e. requiring a majority of independent members on the audit committee) is disproportionate and consequently cancels out the localism principle. We are firmly of the view that localism and democracy go hand in hand; locally, democratically elected Councillors are well placed to undertake this function. Arrangements involving independent audit committee members makes the process much less transparent.

Please note, there will be a requirement to amend the functions and responsibilities regulations - these regulations specify what are council functions and are therefore not functions of the executive.

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

We are not sufficiently familiar with the issues affecting probation trusts and would defer to the view of probation trusts 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, as long as there is appropriate consultation with local government and the NHS on the Codes.

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, but we are concerned about the lack of clarity in the consultation document about the resources and expertise within the Financial Reporting Council (FRC) and indeed the desire of the FRC to undertake this role. Who would administer any such system in the event of the FRC being unable or unwilling to do so?

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

It is difficult to determine who should be responsible when the distinction between approving and controlling and maintaining and reviewing the register is unclear.

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?

The correct level of experience is crucial and we would insist that the specification for the service should have robust experience requirements.

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?

Please see previous comments about experience of complex public sector audit. The presumption is that the criteria applied by the Audit Commission worked well in practice. It is possible that the Audit Commission would have a clearer view on whether they would introduce any new criteria were they not being disbanded but we would require the

appropriate experience. We would be very reluctant to take the risk of awarding a contract currently worth £600,000 per annum to any organisation that did not have relevant previous experience. It might be possible to allow firms to enter the market on smaller and less complex engagements so that they have build up experience and, over time, take on more complex commissions.

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?

Is it the case that this role is currently undertaken by the Audit Commission? If this is the case, would this role pass to the NAO as the organisation charged with developing the respective Codes of Practice?

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?

Would probably agree that all local public bodies should be encompassed by these arrangements if they are spending public money.

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

Yes. Jointly appointing auditors would be encouraged if there was made available a national specification that ensures compliance with the Code of Practice. Such a specification should then allow locally agreed variations (as long as they did not detract from CoP compliance). This strikes us as the most efficient approach, could the NAO be required to produce a framework specification?

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

In part but any comment on this question must start by stating that we do not consider that independent members should be in the majority. There are sufficient backbench, democratically elected members that are independent of both the executive and scrutiny function and representatives of their communities to undertake this role. The criteria are acceptable as far as they go, but there should be an expectation that they have some link to the area if they are meant to be representing the general public, over an above the role of members. In addition, it is unclear why members or officers from one authority would not make good independent members of another authority's audit committee.

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?

It is essential to have the experience and knowledge of working with a public body and reasonable to expect they should have a good understanding of finance.

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

Potentially, non-executive directors of PLCs are rewarded for their role.

15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

The suggestion that there should be a majority of independent members on the audit committee seems to underestimate the ability and role of back bench members to be objective and to safeguard the interests of the wider public. Perhaps the parallel in the private sector is the non-executive director. In reality the non-executive director is precisely that, non-executive, that doesn't make that individual independent per se, just independent of the executive. Backbench elected members are similarly independent of the executive and can and should undertake this role. It also seems to place undue importance on the selection of the auditor, surely the reality is going to be that any auditor selected will need to be independent, and I assume this as now will continue to be a part of their code of practice.

In allowing democratically elected councillors to undertake this role, a further safeguard could be introduced. All members of a Council's audit committee must undertake positive training on the role and, like with planning committees, should be excluded to undertaking the role until the training has been successfully completed.

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?

We would generally support a wide role for the audit committee, but would suggest that would best operate with knowledgeable and experienced back bench members with a democratic mandate, rather than one where a majority of the audit committee is made up of independent members

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

Would tend to avoid being over prescriptive but encourage a wider role in receiving assurances on the Council's entire control environment and adding value by holding officers to account in making the necessary improvements.

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?

Probably, but once again, would suggest that there is a need to avoid being over prescriptive. In terms of who, the NAO.

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

No, it is difficult to see the 'added value' for such public involvement. Elected members are mandated as representatives of the people and can readily undertake this role.

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

We would defer to such bodies to answer 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?

Option 1, it is difficult to envisage a situation in which, even when directed to do so, a Council would determine not to appoint an auditor.

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?

Only if they fail to appoint.

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

It would seem sensible to notify the 'regulator', presumably the NAO.

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

Yes, this makes sense and there is a parallel with the private sector.

25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Yes

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

In part, we would agree that the performance of the external audit should be monitored and are aware that the annual reappointment is mirrored by practices in the private sector. However, firms are likely to price their bids on the basis that the contract will be for a term of (say) 5 years. The risk that a firm would not be reappointed (even on the basis of quality failures) is likely to be a risk that will be priced and mitigate potential savings.

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?

In part, the consultation is silent on the factors that would cause a Council to remove these auditors (and negate any contract). It is similarly unclear on what constitutes 'serious consideration'. Who would arbitrate in such circumstances? The NAO? Would their determination be binding on both parties?

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, our auditors should have a wealth of experience and we would wish to exploit and learn from their experiences. We would not wish the extent to which we can exploit their knowledge and experience to be reduced by the auditors taking a risk adverse approach that limits their liability.

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?

Based on the premise that there is some merit in the requirement for Councils to produce an annual report for the public (i.e. transparency and accountability), option 4 is the preferred option. However, has any consideration been given to extending the scope of the annual governance statement to include reporting on the key business activities? It would seem sensible to have only one such statement/report, albeit the character of the current annual governance statement would need to change to engage members of the public.

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

Yes, this would improve accountability to the public and help engage the public in the wide range of services provided by the Council. Measures would be needed to help ensure that any annual report reaches its intended audience; this is a challenge for most Councils.

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?

It would be difficult to engage the public on such matters and the annual report should concentrate on key business activity. Financial resilience, regularity, propriety and VfM are currently well served by the annual audit letter and the annual governance statement and we are not aware of any public pressure for that to change. However, there could well be an opportunity to bring all such matters together into one public-facing report. It must be acknowledged that this is an additional burden that, if adequately resourced, has some merit.

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

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

In respect to question 30 to 33; this is all about whether we should be producing some form of annual report which is an issue that has been floating around for a while. There is a clear parallel with the private sector, and it does seem difficult to argue against principle that there should be some form of reporting. However, all the evidence does seem to suggest that there is little real appetite amongst the public for this type of report. Central and local government would need to work together to bring about the cultural change that results in there being an appetite for such a report.

Would the annual report replace the annual governance statement or, in the event of a requirement to produce an annual report, would there remain a requirement to produce an annual governance statement in accordance with the newly revised Accounts and Audit Regulations?

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?

There would seem to be sufficient safeguards but we would be interested in knowing whether external auditors consider the safeguards sufficient.

35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Yes, within limits.

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

Yes, in all likelihood, the market will respond positively to the larger contracts (like Leeds). It is unclear what the market response will be so smaller, less lucrative contracts will be.

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?

Probably but this needs careful consideration. It is apparent that the auditors, like the Audit Commission before them, could undertake this role but it is less clear how this role can be undertaken by a committee.

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

Yes

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?

40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Interesting this one, sounds sensible, but one wonders as to how easy it is to separate out their public audit activity from other work.

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)?

An excuse to increase fees, as they are likely to see this as a new risk and assign a price to that risk.

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

Undoubtedly option 2, we would not wish to assume responsibility for appointing independent examiners to other organisations.

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?

Definitely not.

44. What guidance would be required to enable county/unitary authorities to:

- a) Appoint independent examiners for the smaller bodies in their areas?
 - b) Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?

We would not wish to make appointments to other, independent smaller bodies; this is a matter for them.

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

We would not wish to make appointments to other, independent smaller bodies; this is a matter for them.

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?

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?

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?

This is more appropriately a matter for those smaller bodies and would defer to them on this question.

49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

This is more appropriately a matter for those smaller bodies and would defer to them on this question.

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?

This is more appropriately a matter for those smaller bodies and would defer to them on this question.

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