

Consultation Question		Sevenoaks District Council Response
Design Principles		
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>The correct design principles have been considered. The focus on standards and independence will be key, when combined with transparency, to maintaining public confidence in public sector audit.</p> <p>The proposals in this document broadly meet with the design principles. However we strongly disagree with the need to appoint an independent audit committee, this is counter to both the localism principle and the cost-reduction principle. Concerns also exist from the risks generated from the inclusion of auditors within the remit of the Freedom of Information Act.</p>
2	Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?	Yes
Regulation		
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, the National Audit Office is best placed and has the necessary experience.
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
5	Who should be responsible for maintaining and reviewing the register of statutory local public auditors?	<p>It would be most beneficial to have a single register of local public auditors. To this end it would be best held by the Financial Reporting Council rather than by each recognised supervisory body.</p> <p>If this cannot be achieved individual lists held by each recognised supervisory body should be available from a single point of contact. This would improve transparency and improve the ease with which the register could be searched.</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>Demonstrating sufficient ability to conduct public sector audit should be a requirement within the registration criteria for recognised supervisory bodies with the Financial Reporting Council (or other body).</p> <p>Experience should be a factor within this assessment but demonstrating a skills and knowledge base, sufficient capacity to conduct public sector audit or evidence of customer demand, could also provide sufficient reassurance to the Financial Reporting Council to allow a new firm to enter the market.</p>

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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?	-
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?	All public sector bodies could be fairly defined as a public interest entity. As such any definition may most sensibly linked to the level of expenditure if it is deemed necessary to have audits directly monitored by the overall regulator. This level should be set sufficiently high to exclude all Town, Parish and District Councils.
9	There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?	No. The requirement for each council with turnover of £6.5m or more to be annually audited, with standards and safeguards protecting the independence of such auditors, should be sufficient to safeguard the public interest in all but the rarest of cases. In exceptional circumstances, a stakeholder could make use of the public interest provision to request more intense scrutiny. The supervisory and qualifying bodies must sanction and discipline any auditor falling short of the standards. Ultimately, the NAO should have powers to penalise any supervisory or qualifying body that fails to reprimand adequately one of its members who fall short of the standards. This self-policing system with only two layers of auditing is pragmatic and cost-effective. The risk of creating extra auditing tiers, to ensure that an auditor can audit an auditor is wasteful expense.
10	What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?	This should mirror the processes for private sector audit and be limited to the quality of the audit function and investigating significant public interest disciplinary cases.
Commissioning		
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. The ability to procure jointly should be an element of the public audit framework. The ability to appoint joint audit committees should be optional even where a joint procurement is taking place. Local Constitutional arrangements can be amended, as appropriate, to facilitate the approval of a joint procurement exercise without the need for a joint audit committee. This approach would provide the flexibility and independence required.

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<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>No. We strongly disagree with the need to appoint independent members to an audit committee. Independent members have no democratic responsibility and the decision on which auditor to appoint should be made by a Councils elected members. Independent views will be sought in the appointment process at expression of interest stage and this is sufficient.</p> <p>The enforced creation of an independent audit committee is against the principle of localism. Councils already appoint Audit Committees and adhere to best practice guidance issued by CIPFA. This guidance may require updating to reflect new external audit arrangements but no further safeguards are required.</p> <p>It should be remembered that external audit is a professional industry, which, with very few exceptions retains high standards. Council members want a high quality audit process to reassure them. This should not be lost by creating layers of unnecessary bureaucracy.</p> <p>However if you chose to proceed with the need to appoint independent members to an audit committee it should also be a requirement that independent members cannot have worked for a company registered to conduct public sector audit, nor are they a close friend or family member of an employee of a public sector audit company.</p> <p>There should be no stipulation as to how or where recruitment of independent members should be advertised. This is a matter for local choice.</p> <p>Consideration may also wish to be paid as to the suitability of a Member or officer of one council being able to apply for the independent seat on another Council in the local area.</p>

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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?	<p>Again, we strongly disagree with the need to appoint independent members to an audit committee.</p> <p>However if you chose to proceed with the need to appoint independent members to an audit committee they should have relevant financial experience to add value to the Audit Committee or be willing to attend training, delivered by the public body, before they take up their seat.</p> <p>A lack of relevant experience is likely to make operation of the Independent Audit Committee inefficient and more importantly ineffective.</p> <p>If this is not a requirement for independent Members then it is unreasonable to make it a requirement for Members of the local authority to have such experience to sit on the Independent Audit Committee.</p>
14	Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?	<p>Again, we strongly disagree with the need to appoint independent members to an audit committee.</p> <p>However if you chose to proceed with the need to appoint independent members to an audit committee it is highly likely that sourcing independent members will be difficult and is very likely to require remuneration.</p> <p>Remuneration should be determined at a local level. As a new burden government should provide funding per independent member to a set value. If locally this level is exceeded additional funding will need to come from that public body.</p> <p>Government may wish to consider what arrangements Councils will be expected to be put in place if recruitment of independent members fails where advertising has been carried out appropriately and remuneration offered. Will the Council still be able to appoint an external auditor?</p>

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Audit Committees		
15	Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?	<p>No. We strongly disagree with the need to appoint independent members to an audit committee. Independent members have no democratic responsibility and the decision on which auditor to appoint should be made by a Councils elected members. Independent views will be sought in the appointment process at expression of interest stage and this is sufficient.</p> <p>The enforced creation of an independent audit committee is against the principle of localism. Councils already appoint Audit Committees and adhere to best practice guidance issued by CIPFA. This guidance may require updating to reflect new external audit arrangements but no further safeguards are required.</p> <p>The addition of an independent audit committee is an unnecessary layer of administration. Appointment through full Council based on robust procurement and advice from the section 151 officer and existing audit committees is sufficient. This is particularly the case where there is transparency through the publication of the decision making process.</p>
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 prefer option 1 allowing each council the discretion to extend the committee's remit according to local needs and changing circumstances.
17	Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?	<p>Key roles specified in legislation should be limited to:</p> <ul style="list-style-type: none"> • giving advice on the appointment, resignation and removal of the external auditor; • setting a policy on provision of non-audit work by the statutory auditor; and • considering auditor's reports. <p>All other functions can be determined locally.</p> <p>These functions should not be specified in legislation but as now should be set out in guidance by CIPFA which public bodies should be required to have regard to.</p>
18	Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?	Guidance may be appropriate to aid consistency of approach across the country to benefit those bidding for public sector audit work. However this should not be statutory, allowing for local circumstances to be applied.

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19	Is this a proportionate approach to public involvement in the selection and work of auditors?	<p>No. There is no justifiable reason for such heavy-handed prescription and interference in procurement. There is no tangible benefit in involving the public in the appointment of external auditors. The public is unlikely to be interested in the routine appointments, is inexperienced in such procurements and is unlikely to add value.</p> <p>In each council there are many contracts for goods and services likely to be of interest to the local community - which do not require public involvement. There is no reason to make external audit a unique exception.</p> <p>To involve the public would require great effort and expense to engage an adequate number of residents, who would then need to be sufficiently trained and motivated to provide informed judgements. This would delay the process for very little added value.</p> <p>Councillors are the elected representatives of residents and are trained/motivated to take procurement decisions to get best value and ensure integrity.</p> <p>The provision in 3.29 could be included as an extra safeguard but we do not consider it necessary.</p> <p>If government wants to create a failsafe (presumably if it believes the audit committee cannot always be trusted), then place the personal legal responsibility on a statutory officer.</p>
20	How can this process be adapted for bodies without elected members?	-
Failure to appoint		
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 should be the default option for safeguarding against the failure to appoint an auditor. If in a pre-determined period of time an appointment fails to be made Option 2 should be instigated.
22	Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?	<p>In the public interest it may be beneficial to collect and publish information from a central point on the appointed auditor for each public body.</p> <p>Therefore it may be beneficial for each local public body to report the name and contract length of their appointed auditor. For local authorities this could be added to the Single Data List.</p>

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23	If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?	<p>This information should be reported to the Secretary of State as it is his responsibility to act where an appointment is not made. Any further reporting would create duplication.</p> <p>It is suggested that the information returned by each public body is published on the Communities and Local Government website.</p>
Rotation of Auditors		
24	Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?	<p>No. We do not agree that there is a need to enforce the rotation of audit companies after 10 years.</p> <p>There are already sufficient safeguards built in to the process at two levels. External audit firms are subject to a regulatory framework. They are professional bodies and the assumption must always be that these standards will be upheld. In rare cases of failure to uphold standards the regulatory framework is in place.</p> <p>In addition public bodies have sufficient safeguards in place at Audit Committee level. Annual reappointment based on experience of the standards of the previous year within the contract period is sufficient.</p> <p>Rotation of audit companies adds no additional value to this.</p> <p>Councils will also need to apply Financial Procedure Rules to their procurement processes. This will ensure reappointments are not just made without sufficient safeguards and market testing.</p>
25	Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?	Yes, ethical standards provide sufficient safeguards
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?	Yes, the proposals for reappointment are fair
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, removal and resignation processes provide sufficient safeguards

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Auditor Liability		
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.
Scope of Audit		
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?	Option 4.
30	Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?	An accessible Annual Report, including required information, but presented to reflect local need would be a positive inclusion in the audit framework. It could improve accountability and transparency and also provide an efficient approach to the an assessment of value for money by external audit.
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?	If this could not be included within the Financial Statements the Annual Report would be a method of reporting on financial resilience and value for money. It must be determined whether audit firms would be comfortable stating their opinion based only on what is included in the Annual Report. If this is not the case further work may be required that could increase the cost of audit and make the inclusion of such information in the Annual Report ineffective.
32	Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?	'Reasonable'
33	What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?	Guidance, if deemed necessary, should be kept to a minimum. It should only stipulate what statements are required to allow an opinion to be formed on financial resilience, regularity and propriety and value for money. Guidance could be issued by the Secretary of State, with provision for it to be taken in to account in the production of an Annual Report within the 'Audit Bill' in line with the practices for private companies.

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34	Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?	Yes. Auditors will act in accordance with professional guidelines and ethics and public interest reporting could remain within their remit.
Non-Audit Services		
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
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. Approval from the Audit Committee, against the terms of a pre-defined policy are sufficient safeguards.
Public Interest Disclosure		
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?	Yes
Objections to Accounts		
38	Do you agree that we should modernise the right to object to the accounts? If not, why?	Yes. The right to object requires modernisation.
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?	Yes. The process is appropriate.
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?	<p>No. The information assessed by Auditors will have been provided by the public body and will therefore be available to persons from an FOI approach to the local authority.</p> <p>To include Auditors under the provisions of FOI is a risk to the audit relationship and a risk to the cost effectiveness of the audit process.</p> <p>This risk is not proportionate, when the supporting information to the audit of the financial statements is already subject to an FOI request to the public body.</p>

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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)?	<p>There is a significant risk to the auditor/audited body relationship with the potential disclosure of public body information without prior consent. If the trust in the relationship is put at risk this could result in unfavourable circumstances to conduct high quality audit and increase the risk of removal or resignation.</p> <p>If the costs of auditors managing FOI requests becomes unreasonable it is likely that this will be reflected in audit fees. This will be through no fault of either the auditor or the audited body and would be an unfavourable outcome for the public purse and the auditor/audited body relationship.</p>
Arrangements for Smaller Bodies		
42	Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?	-
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?	-
44	<p>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>	-
45	Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?	-
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?	-

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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?	-
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?	-
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?	-