

**DCLG – Consultation on Future of Local Public Audit**

GENERAL OVERVIEW		B&NES COMMENT
		<p>B&amp;NES Council welcomes the opportunity to comment on the proposed future arrangements for the audit of local public bodies. A response to some of the specific questions follows, although we have grouped together our comments as many of the issues are interlinked.</p> <p>First however we wish to give our view on a key area of concern which is the composition and structure of the audit committee.</p> <p>The proposals appear to be trying to fix a bigger problem than replacing the Audit Commission as commissioner of external audit services. There is a presumption of a lack of independence of auditors and incapability of an authority to select its own independent auditors that this Council does not recognise.</p> <p>Furthermore, it is a matter of concern that the proposals intend to secure independence and transparency of external audit through the recruitment of unelected chairs and members of audit committees.</p> <p>Additionally there appears to be a very narrow view of the role of the Audit Committee which does not acknowledge existing arrangements which are of a much broader and significant nature and have served our Council well.</p> <p>If the required role of the future Audit Committee is limited to the minimum activities proposed, then it is doubtful whether it will attract members of the right calibre to serve any useful purpose.</p>

**DCLG – Consultation on Future of Local Public Audit**

THEME	DCLG QUESTIONS	B&NES COMMENT
1. Principles for Local Public Audit	Sections 1 & 2 –  Questions 1 - 10	<p>B&amp;NES Council does not dispute the principles laid out in question 1, however we believe they have not been applied to the options laid out in the remainder of the paper and it is clear if the proposals were to be implemented then –</p> <ul style="list-style-type: none"> <li>- Local Authorities would not be ‘freed up’ but bogged down in bureaucracy and additional costs which it does not welcome through being made responsible for a range of existing Audit Commission responsibilities;</li> <li>- There would be a lack of transparency through the proposals to appoint independent members who are neither accountable to the community or even required to be part of that same community;</li> <li>- There are options laid out in the scope of audit work that would lead to higher audit fees and higher costs in administration and management of the arrangements;</li> <li>- There is little guarantee of higher standards of auditing when quality and monitoring is left to existing bodies who have not exhibited a track record of evidence in this practice and any regulatory framework will have a cost attached to it, which will inevitably be passed onto to councils in audit fees;</li> </ul> <p>We would as a general point strongly urge a complete re-think to these proposals as they stand and not throw away the good elements of the existing framework which have stood the test of time.</p>

**DCLG – Consultation on Future of Local Public Audit**

<p>2. New Role for Local Authorities in Procuring their External Auditor</p>	<p>Section 3 – Question 11</p>	<p>B&amp;NES Council welcomes local choice but in this respect believe the existing system of national frameworks established by the Audit Commission should be continued in some form.</p> <p>The key reasons for retaining a national or single approach are –</p> <ul style="list-style-type: none"><li>- It enables a consistent approach to the market;</li><li>- It considerably reduces costs for the providers (private sector), one procurement process not hundreds;</li><li>- It ensures limited procurement capacity in Councils is not diverted from properly focussing on supporting front line service delivery;</li><li>- It ensures commonality of standards and evaluation;</li><li>- It does not introduce unnecessary and expensive costs;</li><li>- It does not divert senior management capacity;</li><li>- It ensures complex procurement risk is managed and reduced;</li><li>- It retains public faith in good governance.</li></ul> <p>Our preferred option is therefore either a residual role for the Audit Commission or a role for the NAO in establishing frameworks at a national level to save on the considerable time, effort and cost that a locally managed procurement exercise will undoubtedly lead to.</p> <p>An alternative would be that if it is not possible to do this at a national level then ‘super regions’ i.e. South West be established to let contracts across a wide geographic region and councils establish a consortia approach to the procurement process</p>
--	------------------------------------	--

**DCLG – Consultation on Future of Local Public Audit**

		<p>Finally we would strongly advise that any timetable should reflect the complexity of the process and the cost and risk involved and adequate time should be allowed to change to any new arrangement</p>
<p>3. New Proposals for Changing the Membership and Scope of the Audit Committee</p>	<p>Section 3 – Questions 12 – 14 &amp; Questions 15 - 18</p>	<p>B&amp;NES Council strongly objects to all the various options laid out for altering the structure and terms of reference for the audit committee. The current system is neither broken, failing or in decline.</p> <p>Audit Committee’s in local government have been working widely for at least five to ten years as a result of many of the corporate governance failures in the private not public sector.</p> <p>The effectiveness of this regime has grown during this time with the support of CIPFA who have laid out a clear code of practice for the operation of such committee’s.</p> <p>We believe that the existing system should remain and prescribing an approach based on the private sector does not reflect either the principles of ‘localism’ or hold democratically accountable members to account.</p> <p>Further reasons to support our position include –</p> <ul style="list-style-type: none"><li>- There is a clear and active Code of Practice devised by CIPFA which has the full support of this and other Councils, it does not appear to have been acknowledged or taken into account;</li><li>- The system is based on ‘localism’ i.e. local Members entrusted by</li></ul>

DCLG – Consultation on Future of Local Public Audit

		<p>and accountable to the public to hold the Council ‘in check’;</p> <ul style="list-style-type: none"><li>- Proposing all or most of the committee to be ‘Independent’ does not make them either accountable to the community or conform to a local approach, it is likely they will not even live in that community;</li><li>- Based on experience there is no market for quality independent members, therefore identifying a suitable number is also unlikely;</li><li>- Independent Members already exists and are recommended through the CIPFA Code of practice, they provide a valuable external insight to support the committee’s work but not to manage and operate it or be able to represent the local perspective;</li><li>- The terms of reference of the committee go much wider than the narrow view taken of the committee’s role in the consultation paper, i.e. no mention of Internal Audit, Risk Management, Corporate Governance (i.e. Annual Governance review) and many other areas which currently receive scrutiny;</li><li>- We do not believe it is a valuable use of Members time in overseeing or being involved in the detail of the appointment process, in fact it presents a conflict of interest when they are also responsible for assessing the effectiveness of the same provider.</li></ul> <p>Finally local choice based on an accepted Code of Practice is our recommended way forward, not a prescribed formula which is based on a different sector.</p>
--	--	--

**DCLG – Consultation on Future of Local Public Audit**

<p>4. Options on Scope of Audit Work</p>	<p>Section 4  Questions 29 - 33</p>	<p>B&amp;NES Council believes that if a consistent base level is not agreed upon it could lead to an inconsistent approach being taken across the country to external audit and an uneven playing field in terms of quality, standards and wider assessment of VFM.</p> <p>Whilst option 3 recognises the status quo and is acceptable, a single base option should be chosen as a minimum, i.e. option 2 for everyone with only local choice being allowed to select more not less.</p> <p>Further concerns persist on the way the market may be manipulated by existing external providers – the big four – as they also currently provide a range of valuable non-audit services to the public sector.</p> <p>There is a very real risk therefore of having little if any choice in the provision of local audit and thereby increased costs as those same providers decide that non-audit work is more valuable to them and their rates and approach reflect this.</p> <p>It is already clear from informal discussions with these providers that they will be in competition with different arms of their own firms and this is only likely to lead to a poorer quality product in terms of audit as non-audit services traditionally form a larger part of the market.</p> <p>This could place Councils at significant risk and we urge a rethink regarding the residual or continuing role of the Audit Commission as it can if given the opportunity, provide a way to address these concerns by being allowed to either retain or bid for this work.</p>
--	---	---

**DCLG – Consultation on Future of Local Public Audit**

<p>5. New Roles for S151 Officer in relation to smaller public bodies, i.e. town and parish councils</p>	<p>Section 5 Questions 42 - 50</p>	<p>B&amp;NES Council strongly rejects the proposals outlined in this section.</p> <p>Effectively delegating this substantial work from the Commission to S151 Officers will only introduce significant cost, waste and unnecessary bureaucracy and distraction from the essential role of the S151 Officer.</p> <p>One of the good elements of existing Audit Commission work is their ability to provide a VFM approach to smaller bodies and we would strongly urge that decisions are continued to be taken at a local level, i.e. by the respective District or Town Council.</p> <p>This can be supported by either a residual role for the Audit Commission through their existing work or is let and managed through a national framework overseen by the NAO.</p> <p>There is little acknowledgement of responsibility for quality, standards and ultimate accountability and we would also be concerned about the Councils liabilities in this sector.</p> <p>We can see no advantages in any of the proposals to transfer responsibilities to the S151 Officer of the Local Authority and believe this will only add cost and divert vital management capacity away from dealing with the highly challenging financial management horizon in local government and supporting front line service delivery</p>