

The Future of Local Public Audit – Lancashire County Council's Detailed Response

Lancashire County Council serves a population of 1.2 million people and is one of the largest local authorities in England. In addition to the Council's revenue budget of £769m we are responsible for a capital programme of some £500m and a pension fund with assets of £4.25bn. The Council has enjoyed a long and constructive relationship with its external auditors who provide an important part of the system for demonstrating appropriate stewardship of public funds. The Council welcomes this opportunity to contribute to the process of developing new arrangements for the audit of local public bodies which build on the strengths of the previous arrangements and focus on this core purpose of reporting on the stewardship of public funds. We deal with each of the consultation questions in turn below, with some more general comments set out in our covering letter.

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?

Broadly the proposed design principles seem to be appropriate. However, the issue will be in terms of how the principles are applied in practice and how these design principles ensure the delivery, or equally importantly the perception of the delivery of high quality public audit.

A key debate will clearly be around how independent the process of appointment is in the model suggested by the Government. This is, in our view, the wrong debate. The debate should focus on how any package of reform delivers a quality audit product in which the public will have confidence.

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

Yes, the current situation is clearly anomalous and should have been dealt with when the National Offender Management Service was first created as a unified organisation.

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

As the UK's Supreme Audit Institution there seems no obvious alternative to the National Audit Office (NAO) in taking this role, other than through some form of "privatisation" such as giving it to the Auditing Practices Board, which would not provide the same level of clear parliamentary accountability which is fundamental to the role.

We do, though, have some reservations about the NAO taking on this role. The NAO is not familiar with the local government environment and the vast diversity of institutions within it. We would therefore look to the NAO to transfer in some of the Audit Commission's existing expertise in this area of work.

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?

Given the Government's desire to create an arrangement akin to that in the company sector it seems appropriate to base any registration system in relation to local authority audits on the existing arrangements.

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

Given the clear desire on the part of the Government to mirror the arrangements in the Company sector, which clearly has some benefit in terms of economies of scale the use of the Financial Reporting Council for this purpose would appear to be sensible. However, if there is an additional resource requirement for this it should be met directly and transparently by Central Government and not form part of a "levy" on the audit fees payable by local authorities. Should the FRC not be able or willing to undertake this role then the default alternative would seem to be the NAO which could perhaps achieve the necessary assurance through the letting of framework contracts from which local authorities could "call off" through "mini competitions". The due diligence process for inclusion on the framework would in effect serve as the registration process, and might also serve to reduce the costs of procurement to individual local authorities.

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 role of the Audit Commission in managing the market has, arguably, been successful in maintaining audit quality although we would argue at the expense of far higher levels of audit fee than are paid in other sectors of the economy. However, it is also the case that a market free for all could endanger audit quality the maintenance of which is a vital outcome of any new arrangements.

To be able to maintain effective audit quality an audit practice will have to maintain a minimum number of clients in order to be able to maintain the necessary technical expertise. In reality this probably means that the firms capable of entering the market and sustaining the initial investment required are the "big four" plus a number of the larger "second tier" firms who may be able to develop the business in specific geographic areas or which might acquire parts of the current "in house" practice if disposed of rather than mutualised.

Our suspicion is that the market will grow very slowly in the first instance, unless the Government chooses to dispose of the current in house practice to a number of current non-participants. The size of the in house practice will actually act as a

barrier to competition if it is maintained as a monolithic provider. This would argue that while the registration requirements may have some effect on the diversity of the market a far more important factor will be the Government's decisions about the future of the in house audit practice.

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?

In order to encourage new market entrants we would not expect to see a demonstrable track record in the field as one of the criteria. At the same time we would not expect local authorities to meet the cost of the learning curve for new entrants. We would expect that those seeking registration should be able to demonstrate a long term commitment to operating in this market, for example through acquisition of elements of the in house practice if it is sold or the development of internal centres of technical expertise.

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?

This is a potentially difficult area as it would seem undesirable for too many of the entities subject to the current Audit Commission regime to fall into the Public Interest Entity category. The options would seem to be

- All principal local authorities, although this, again, may involve too many organisations, or
- A size threshold based on budget requirement or balance sheet size, set at a level which would bring an appropriate number of organisations within the scope of this regime.

In some sense neither of these is satisfactory as they do not necessarily identify those organisations which represent the greatest systemic risk. In fact as a generalisation the more problematic bodies within the Commission's remit have tended to be smaller ones.

In terms of whether additional work is required, given the move to a regime parallel to that for companies we would expect that the requirements on the FRC would be somewhat less than at present.

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?

See above. Fundamentally we believe that either all local public bodies are public interest entities or if for practical purposes the number needs to be smaller then those that might be seen to represent systemic risk should be included in this category. How those authorities which might represent systemic risk are arrived at is

difficult, but in addition to a very substantial size threshold of say a revenue budget requirement in excess of £500m any body having had a public interest report, submitted accounts late, or had their accounts qualified in the last five years should be included. The public interest lies in the maintenance of wider public confidence in local public bodies and organisations with any of these qualitative characteristics run the risk of undermining public confidence.

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

Given the desire to maintain a regime similar to that for companies we would argue that the regulator's role should be the same as in the company sector.

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?

We feel there is a need to distinguish between a joint committee to appoint auditors and an "ordinary" Audit Committee. Taking Lancashire as an example as a minimum we would wish to make a joint appointment for the County Council, the Police Authority, the Fire Authority and the Pension Fund as all these bodies share a common systems infrastructure that only needs to be audited once. We also feel that a more comprehensive procurement involving the 2 unitary and 12 district councils in Lancashire will generate further savings through exploiting similar commonalities, although this has not been formally discussed at this stage. It would be impractical for one Audit Committee to actually undertake effectively the routine work required by each body even in the minimum scenario. This issue could be addressed by having a Joint Audit Appointment Committee, which could even be made up entirely of independent members supported by each Council's Audit Committee constituted in the way envisaged by the Government.

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

The criteria that are provided are designed to guarantee independence, which they do. However, they do not guarantee any other quality such as the ability to effectively question either the auditor or the management of the audited body. In seeking to recruit independent members to such committees it would be sensible to provide a role description and person specification to assist in the recruitment process as with any other position. In particular it would be useful to be able to specify some degree of financial understanding and understanding of the role of the Audit Committee.

The provision that the majority of members of the committee are independent, presumably of those present, is determinate on a successful recruitment process.

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?

This would certainly be beneficial, although understanding and the ability to know which questions to ask rather than direct practical expertise may be a more achievable aim.

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

Clearly it would be appropriate for independent members to be reimbursed for their out of pocket expenses. In terms of remuneration this should be a matter for council remuneration panels to determine in line with the principle of localism and should be related to the scale of work undertaken. Clearly if councils are unable to recruit such members on a voluntary basis and having independent members is a legal requirement then some form of remuneration will need to be introduced. In line with the other elements of change proposed in the public audit regime we feel that this is an area where the market should be allowed to decide. The County Council has experienced difficulties in its recruitment of Independent members to its standards committee and its remuneration panel.

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?

As the document itself acknowledges to an extent the appointment of the auditor will never be truly independent if the Council is involved in it. The proposals made seem to provide the most transparent means of achieving some independence in the process. We do have some concerns about the description of the process to be followed. We would envisage that these will need to be procurements under EU procurement rules and therefore the Committee will need to specify in advance of the tender the evaluation and award criteria and then apply them in their evaluation. These criteria therefore come up with the most suitable bidder, rather than the almost entirely subjective process set out in the consultation document.

We are also concerned by the form of words "*may wish to have regard to advice from the s.151 Officer*". The s 151 Officer while an employee of the Council owes a personal fiduciary duty to local taxpayers (as established in *Attorney General v de Winton*) and is clearly in a position to provide appropriate advice to an Audit Committee with regard to auditor appointments. While the Audit Committee may choose to ignore advice, as any Committee can, it should be under an obligation to at least listen to that advice and we would therefore argue that the Committee either "*should have regard to*", or "*should consider in coming to its decisions*" advice provided by the s, 151 Officer.

As indicated above we see practical difficulties in ensuring that the important wider role of an Audit Committee is fulfilled in the context of joint appointments and would suggest that provision be made in such circumstances to allow for the separation of the role of audit appointment from the wider role where a joint appointment is to be made. In general terms we would prefer option 1 as the more minimalist and

therefore localist approach but supported by a requirement to take into account professional best practice in setting the terms of reference of the Audit Committee.

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?

As indicated above we feel that Option 1 supported by a requirement to have regard to professional best practice in setting the terms of reference of an Audit Committee provides the best approach.

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

In our view it is a matter for individual local authorities to determine the number and role of committees within their governance structure with the minimum degree of prescription and therefore we feel that as little as possible should be set out in legislation and statutory guidance.

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?

Given the other elements to the legislative framework and the fact that the appointment processes seem likely to require a European procurement which in itself will prescribe the appointment process there seems to be no requirement for further guidance.

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

These proposals do not seem particularly burdensome, although they do result in the identification of those firms involved in the procurement process to the public at an early stage. We have no objection to this and would welcome it. However, the private firms involved may have different views.

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

The issue here seems to be one particularly in relation to the proposed Police and Crime Commissioners as other bodies have some body analogous to a Full Council and can appoint an Audit Committee. The suggestion in relation to the Police and Crime Panel seems a sensible way forward.

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?

While we find it difficult to envisage circumstances where a local authority would refuse to appoint an auditor we accept that powers such as those suggested are a necessary fail safe. Our preference would be for option 1 as option 2 in essence

represents the same situation as the appointment of commissioners by the Secretary of State.

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?

Local public bodies should inform the Secretary of State that they have appointed an auditor and of the identity of that auditor.

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

The Secretary of State.

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

This seems a reasonable span of time. However, we would be concerned that local authorities do not get drawn in to debates over the application of TUPE regulations to work of this sort and hence in to potential additional costs.

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?

We believe that the current ethical standards provide sufficient safeguards and would not wish to see additional regulation in this area.

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 general terms this seems a sensible balance. However, we are concerned that there might be issues with this in particular parts of the country where there may be a lack of competition and in effect some sort of local monopoly as is the case now in some areas where work is dominated by the Audit Commission's in house practice. There will need to be some way of ensuring that there is effective competition for work in all areas so that this provision does not lead to a gradual upward movement in fees.

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

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?

Clearly placing an unlimited liability on auditors in relation to the possible legal costs of public interest work such as the Westminster case will result in two things. Firstly an overall increase in fees, and secondly a risk assessment in terms of which work to bid for which may result in some bodies being unable to appoint auditors. Neither situation is desirable.

We would prefer the Government to continue to indemnify auditors in such situations as this will allow them to continue to act without fear or favour in the broader public interest and we would see the proposal to create a regime analogous to that for companies as very much second best. We feel that a company style regime will result in inconsistencies in the degree of audit coverage that are delivered through the limitation of liability which could have a negative impact on public confidence in the audit regime.

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?

The answers to the following questions need to be viewed in the context of our strong belief that the accounts of local authorities following the adoption of IFRS (and even before this) have become incomprehensible to many professional readers never mind the general public with concomitant impacts on audit fees. There is therefore an urgent need to either simplify the overall financial reporting framework or separate reporting for the purposes of public accountability from traditional external financial reporting.

In terms of the options presented we are not convinced that the additional costs that would be incurred in the scope of audit set out in option 3 would be justified by the realisable benefits. We would also question the point of a conclusion in relation to financial sustainability unless the Government proposes to take action in response to conclusions that organisations are not financially sustainable. This has to be a role for government as the solutions to these issues are most often outside the control of the individual council and in future are likely to relate to inability to achieve economies of scale. As the Government has explicitly ruled out reorganisation of local government which would be the principal way of dealing with this there seem to be no, or very few, tools available to address these issues making the idea of an additional audit conclusion for something that will, in any event be self evident redundant.

It seems illogical to reduce the scope of the current audit and hence the information available to the public and therefore we believe that option 2 presents the appropriate scope of audit that together with other aspects of the Government's proposals will allow local public bodies to achieve reductions in audit fees. This scope also allows Council's and auditors to jointly agree value for money audits if appropriate to local circumstances.

While other options for the scope of audit may be available we can see no justification for changes in this area, particularly for changes which might have the effect of reducing the level of information available to 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?

As a matter of principle we feel that setting out requirements for how local authorities make themselves accountable to the public is anti-localist. We do though accept that a form of annual report is an appropriate part of such arrangements and report our operational and financial performance to residents through the Council's twice yearly newsletter. However, this will be an entirely unbalanced and incomprehensible document if it has to include the full financial statements, which for the County Council run to over 150 pages. Council's must be given the flexibility to report in a way that is meaningful to residents and supports the way in which they wish to engage with the Council rather than adopting the bureaucratic standard classifications specified in government returns and regulations. A company style annual report is not an appropriate way for Lancashire County Council to make itself accountable to 1.2m residents and would represent an unduly costly way of achieving this broad objective.

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?

Such a report is unlikely to be perceived as timely by residents if it has to include audited financial data as it will appear a minimum of six months after the end of the financial year. While clearly it provides a medium for communicating issues such as these it may not be the best one for doing this.

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

Other than the financial data included in such a report we do not believe that the auditor should need to express an opinion on any of the other information contained in it. For example a report might include performance information such as the level of recycling. For the auditor to provide assurance they would then need to audit this information. This reinstates the audit of performance indicators which is something that the previous government abolished in an effort to reduce burdens on councils and seems to run counter to what the Government is seeking to achieve.

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

We do not think guidance is necessary, we believe that local authorities are perfectly capable of devising an adequate way of reporting their financial and operational performance to residents without new guidance.

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?

Certainly it is vital that the public interest reporting regime be maintained. The safeguards set out should have the desired effect, when added to with a ban on non audit work as set out in our response to question 35. However, this will not become clear until tested.

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?

No we would wish to see a specific prohibition on auditors carrying out other work for audit clients and from being involved in the supply of other services to audit clients through partnership arrangements. We see this as an important safeguard in providing public assurance that auditors' views are not being swayed by their firms' potential access to other more lucrative income streams. In particular residents might perceive that auditors who provide non audit services would be less likely to carry out public interest investigations which might set them at odds with a potentially lucrative client. We feel that this is an important safeguard from the public's point of view when as acknowledged by the Government the independence of the auditor appointment process will be reduced.

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

No as indicated above we feel the fact that public money is involved here requires a higher level of protection against the perception of conflict of interest which can only be given by a prohibition on non audit work. We believe that there is sufficient audit and non audit work in the total market for firms to be able to generate sufficient revenues without their viability being compromised by this. It is also the case that such a prohibition might encourage the entry of some audit only specialists in to the market by assuring them that they are on a level playing field with the big firms.

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?

We do not feel that the Audit Committee is an appropriate body to become a designated person as the Committee is not a corporate or single person entity, and will be administered by officers of the local authority. The consultation document refers to the role perhaps being taken by one of the independent members. This is practical although we would suggest it should probably be the independent chair and this may be a factor in whether or not the position should receive some form of remuneration.

Continuing the current arrangements in relation to auditors seems entirely appropriate.

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

Yes, the Government's proposals here seem entirely reasonable and provide an opportunity to address the issue of vexatious complainants which has placed significant burdens on some individual local authorities.

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, it allows the auditor to exercise appropriate professional discretion in the way in which they deal with individual issues, something not present in the current arrangements.

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?

Yes. To do this is entirely consistent with the Government's objective of "opening up" the operation of government at its various levels.

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)?

There is clearly a danger that becoming subject to the Freedom of Information Act might cause auditors to be less frank in their assessments in order to maintain relationships with audited bodies and potentially to avoid some form of perceived liability or risk of being sued. This is clearly undesirable, but at the same time were it to be the case the auditor would surely be failing in their duty to report without fear or favour and could be subject to regulatory sanction, thus providing a countervailing pressure. This risk is based on a view that the client is the audited body. While this may be the case in a company audit the situation with public bodies is more complex and in reality the client is the broader public. When this view is taken the threat which auditors might perceive from the Freedom of Information Act is lessened.

While it would be nice to think that auditors could be brought within the Freedom of Information Act without there being any cost this would be a naive assumption. It seems likely that if the experience of local authorities is anything to go by they will be subject to a range of "fishing expeditions" by individuals or firms seeking competitive advantage. However, the firms, perhaps to a greater extent than local authorities because of their internal costing processes, will be able to justify charging for the provision of responses where allowed.

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

Option 2 would provide a genuinely localist approach, although this would seem likely to be at the expense of a greater workload for the audited bodies and higher fees as it seems likely that there will be less competition for small "penny packets of work" of this sort, which is why the Audit Commission moved to adopt the current arrangements for independent examination which seem to work well. In the case of option 1 if upper tier authorities were to use their own staff for this it might result in somewhat lower fees but this is a matter of conjecture and the clustering of work at particular times of year (200+ sets of accounts at once in Lancashire alone) might make handling this work with in house staff difficult. If this were the case it is difficult to see how a smaller contract than the Audit Commission's current arrangements could generate economies of scale. Option 1 also fundamentally changes the relationship between upper tier authorities and their town and parish councils and the impact of this on the broader relationship between the different bodies also needs to be considered carefully before going down the route of what appears to be the Government's preferred option.

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?

We note with interest that the Government does not propose to give this role to District Councils in the shire areas where there is a much more direct relationship between the district and the parish or town councils. Given the current effective national arrangements operated by the Audit Commission we see no reason why CLG could not operate such arrangements directly. While this is not a particularly localist approach it is a way of making sure key elements of the current arrangements which work are not lost.

In reality there is little difference between the two options indicated as the full council advised by the audit committee will be advised by the section 151 officer who will undertake the detailed work required. The scale of the work will vary considerably from place to place given the penetration of Parish Councils. Clearly there will be a cost to such work in carrying out the procurement process and managing the contracts once let. There is also likely to be a need for a considerable amount of interaction with audited bodies during the procurement process and in particular around the level of fees proposed, particularly if there is a significant increase. Undertaking this work will divert resources from core activity in relation to the management of the financial affairs of the upper tier council, which will have a cost in terms of lost productivity and this will either need to be funded through the new burdens mechanism or through a levy on the audited bodies which is likely to increase fees even further.

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?**

In essence this requires a version of the Code of Audit Practice tailored to parish councils which acts as a minimum specification for the procurement process.

Given the nature of the guidance it would seem appropriate for this to be produced by the National Audit Office alongside the main Code of Audit Practice.

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

In theory yes, however the practicality of such arrangements remains to be seen.

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?

Other than maintaining the current national arrangement via CLG no other options are obvious. If option 1 is pursued then the obvious way to arrive at a solution for cross border bodies would be to designate a lead authority as is done for many other things. In general local authorities manage to deal with these issues without massive problems.

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?

The four level approach seems sensible and proportionate. However we do have a concern about the upper threshold being set at £6.5m. Acceptance of this type of audit regime requires the acceptance that there will be a greater degree of risk taken in relation to these smaller bodies because of the relative immateriality of their expenditure. We are not clear whether the move to £6.5m has been looked at in terms of risk assessment and are concerned that setting the threshold at what will be perceived by the public as a very high level could run the risk of undermining public confidence in the audit regime.

Certainly a narrower scope of audit could be an appropriate approach for smaller bodies. However, again this runs the risk of undermining public confidence in the audit regime and if this route were to be taken it would be important to consider this sort of impact before making any change.

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?

In the context of the idea that the upper tier council would appoint the Independent Examiner then this arrangement is sensible, whether it would be so in any other arrangement is questionable. In terms of the suggestion in relation to making the relevant parish's next precept conditional on addressing issues in a public interest report this raises a range of issues. It needs to be borne in mind that these issues

are not theoretical as more public interest reports have been issued in relation to parishes than any other type of council.

Presumably the full council of the upper tier authority would have to resolve to impose this form of sanction, on the advice of the relevant audit committee. There could be significant issues were these powers to be exercised by individual officers. This still leaves some specific questions:

What would happen if the relevant parish council refused to accept the recommendations contained in the public interest report?

What would happen if the upper tier council refused to accept the recommendations of the auditor?

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?

We are not convinced that the section 151 officer of a County Council, rather than a District Council is best placed to undertake this role. However, it is sensible for the role to reside with the same organisation that commissions the independent examination and is responsible for dealing with public interest reports.

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?

We do have specific concerns about the County Council exercising a regulatory role over Parish Councils and the impact this might have on the relationship between organisations. However, putting this to one side the framework described seems to deliver a proportionate system for smaller bodies.