



Draft Local Audit Bill

Consultation response form

We are seeking your views on the following questions on the Government's draft Local Audit Bill and proposals for the audit of smaller local public bodies.

If possible, we would be grateful if you could please respond by email.

Please email: foia@communities.gsi.gov.uk

Alternatively, we would be happy to receive responses by post. Please write to:

Future of Local Audit
Department for Communities and Local Government
3/J5 Eland House
Bressenden Place
SW1E 5DU

The deadline for submissions is 5pm on 31 August 2012.

(a) About you

(i) Your details

Name:	Sir Simon Day
Position:	Chair of Audit Committee
Name of organisation (if applicable):	Devon County Council
Address:	County Hall, Topsham Road, Exeter, TQ2 4QJ
Email:	mary.davis@devon.gov.uk
Telephone number:	01392 383310

(ii) Are the views expressed on this consultation an official response from the organisation you represent or your own personal views?

Organisational response	<input checked="" type="checkbox"/>
Personal views	<input type="checkbox"/>

(iii) Please tick the *one* box which best describes you or your organisation:

Upper tier local authorities	<input checked="" type="checkbox"/>	
Lower tier local authorities	<input type="checkbox"/>	
Parish and town councils	<input type="checkbox"/>	
Audit and accountancy firms	<input type="checkbox"/>	
Professional auditing and accountancy firms	<input type="checkbox"/>	
Other audited public body (e.g. fire authority, police authority, national park authority, pension authority - please state which)	<input type="checkbox"/>	
Other (please state)	<input type="checkbox"/>	

(iv) Do your views or experiences mainly relate to a particular type of geographical location?

City	<input type="checkbox"/>	
London	<input type="checkbox"/>	
Urban	<input type="checkbox"/>	
Suburban	<input type="checkbox"/>	
Rural	<input checked="" type="checkbox"/>	
Other (please comment)	<input type="checkbox"/>	

(vi) Would you be happy for us to contact you again in relation to this consultation?

Yes	<input checked="" type="checkbox"/>
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No	<input type="checkbox"/>
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(b) Consultation questions

Draft Local Audit Bill:

Part 1 - Abolition of existing audit regime

Q1. Do you have any comments on the clauses in Part 1 or Schedule 1?

Comments (please state clearly which clause you are referring to):

Clause 19. The Council understands the reasons for the abolition of the Audit Commission and accepts that this part of the bill is simply the mechanism for achieving this. The Council received a good level of service from the Audit Commission. However, the level of fees was high and there was little scope to negotiate a reduction. If these changes maintain the level of service but at a more realistic cost then we are in favour.

Part 2 - Basic requirements and concepts

Q2. Do you have any comments on the clauses in Part 2 or Schedule 2?

Comments (please state clearly which clause you are referring to):

No significant comments

Part 3 - Appointment etc of auditors

Q3. Do you have any comments on the clauses in Part 3?

Comments (please state clearly which clause you are referring to):

Clause 11. You propose that Local public bodies will have a duty to appoint an auditor from the register of local public auditors, but that this will be “on the advice of an Independent Auditor Panel”. This should have an independent chair and a majority of independent members.

You further state that you intend to prescribe specific functions to this Panel limited to the external audit, including advising on auditor appointment, independence, removal and resignation, with arrangements allowing local public bodies to share Independent Audit Appointment Panels, and expand on the remit of their Panel if they wish.

The Audit Committee of Devon County Council has questioned how this panel will ensure that local democracy and accountability can be best delivered. Elected members to the council are accountable to the

electorate for the actions of the Council; this should include the appointment of an External Auditor to review and report upon the Councils finances. There is a presumption of a potential lack of independence of auditors and incapability of an authority to select its own independent auditors, 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 Independent Auditor Panels.

Q4. Do the clauses in Part 3 strike the right balance between ensuring independence in the audit process and minimising any burden on local bodies?

Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>

Further comments:

Although the impact assessment includes the cost of local public bodies compliance with the new framework, the costs are only estimates and do not take into account any regional variations or the additional staff time required to procure and manage the contracts with the audit providers. Joint commissioning may reduce these costs but surely it would have made more sense to keep a centralised commissioning function rather than each local public body maintaining the same support structures and monitoring processes. Even allowing for joint procurement, this will need to be done on a regional basis meaning that there will be at least 10 or more contracts even if the recent contract lots were repeated.

Q5. Does Clause 11 provide sufficient flexibility to local bodies to set up joint panel arrangements and/ or put in place other arrangements to suit local circumstances?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

Although Clause 11 does provide sufficient flexibility, further guidance would be welcomed on whether a joint auditor panel made up of the Chairs of existing Audit Committees would meet the independence criteria. If for example 3 or 5 Authorities formed a joint panel each

represented by a single Member, then it could be argued that 2/3 or 4/5 of the panel would be independent of each authority which would then satisfy the criteria and minimise additional costs.

Q6. Does the draft Bill strike the right balance in terms of prescription and guidance on the role of auditor panels?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

Greater clarity as to how the independent panels should interact with established Audit Committees would be welcomed. Given the difficulties in recruiting independent members it is not likely to be practical for all authorities to establish Audit Committees meeting the criteria to fulfil the role of Auditor Appointment Panels and therefore would need to maintain two separate, although possibly linked structures.

Q7. Do you have any comments on the proposals set out in paragraphs 26-34 of the consultation document on removal and resignation?

Comments:

No significant comments, other than should there also be a role in the arrangements for existing Audit Committees in light of our comments above

Part 4 - Eligibility and regulation of auditors

Q8. Do you have any comments on the clauses in Part 4 or Schedules 3 and 4?

Comments (please state clearly which clauses you are referring to):

it is considered essential that Auditor accreditation should be facilitated for Members of the Chartered Institute of Public Finance and accountancy (CIPFA) and there needs to be consideration of including CIPFA in the list of supervisory bodies. Many auditors working in the companies sector are not familiar with the unique requirements of audit in the public sector and the current Accounting codes of Practice for Local Authorities are produced by CIPFA and it is these that are audited against. To ensure quality there will need to be some form of accreditation or practising certificate for auditors to be eligible to work as public sector external auditors. The Financial Reporting Council would appear to be the logical body to undertake the regulatory role but

there are significant concerns about its ability to resource the additional responsibilities and also its technical expertise. Further clarification / confirmation as to who will meet any additional costs arising from the regulatory regime would be welcomed.

Q9. Do you agree with the proposed definition of connected entities in clause 20?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

No significant comments

Q10. Do you have any views on how major audits should be defined in regulations?

Comments:

Potentially 1st tier authorities or bodies with a turnover in excess of a sum to be determined.

Part 5 - Conduct of audit

Q11. Do you have any comments on the clauses in Part 5?

Comments (please state clearly which clauses you are referring to):

The framework established through the Code of Practice needs to be risk based and proportionate. The Code should ensure the burden on local public bodies is minimised as far as possible whilst retaining transparency and accountability to the electorate. Further discussions would be welcomed on the Value For Money judgement particularly. The usefulness and relevance of the current regime for the VFM judgement is debatable in the current climate as all bodies have to deliver services more efficiently to meet spending targets. It could be argued that the need for a "value for money" judgement has been overtaken by events as Authorities are forced through grant reductions to look at ways to "work smarter" and get more from every resource. Authorities are too busy actually doing this to have time to prove in a prescribed manner that that are doing it.

Q12. Do you agree that public interest reports issued on connected entities should be considered by their 'parent' local body?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

No further comment

Part 6 - Data Matching

Q13. Do you have any comments on the clauses in Part 6?

Comments (please state clearly which clauses you are referring to):

Not specifically, other than to express concern as to the costs of such exercises and whether they do demonstrate value for money for many authorities. If the provision of data is to be mandatory, would it not be more equitable to either fund such exercises centrally or charge public bodies a percentage of any losses recovered / savings identified?

Q14. Do you have any views on the new owner(s) of the National Fraud Initiative?

Comments:

Given the relevance / links of NFI to the new National Fraud Strategy for Local Authorities produced by the National Fraud Authority (NFA), it would seem logical for the NFA to take ownership of the initiative.

Part 7 - Inspections, studies and information

Q15. Do you have any comments on the powers provided to the Comptroller and Auditor General to undertake studies and access information within clause 94?

Comments:

Any exercises undertaken should be discussed with relevant authorities and the scope and objectives agreed in advance. Ideally any such exercise should add value both nationally and locally. As the costs of such exercises are expected to be borne centrally, the Council hopes that there will not be any levy on Council budgets or corresponding cut to council funding.

Q16. Do you think that the National Audit Office should be able to undertake thematic value for money studies regarding all sectors whose bodies are subject to audit under this draft Bill?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further Comments:

Answered Yes but please see comments below. Please note the response to this question has also been endorsed by John Hart, the Leader of Devon County Council.

The role of the NAO should be well defined and limited otherwise there is the risk that it could replicate the Audit Commission. There may be some justification in the NAO undertaking a few, value for money thematic studies on issues agreed with the public sector. However, the NAO should not investigate the performance of individual authorities nor identify areas of improvement. There is no desire to recreate CAA through the back-door.

Q17. Do you have any comments on the other clauses in Part 7 or Schedule 5?

Comments

No further comments

Impact Assessment:

Q18. Does the impact assessment identify the main drivers on fees?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Are there any other drivers on fees?:

Location of audit clients - impact of rural authorities and associated travelling etc

Legislative changes and impact of health and other reforms

Q19. Are the estimates of local bodies' compliance costs realistic?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

Difficult to assess how realistic the estimates are. Although based on reasonable assumptions and past studies, the costs could vary between £4.33M and £6.32M per year. In assessing the impact, it may be more prudent to assume the worst case scenario until other evidence is available.

Q20. Are the estimates of the costs and benefits to businesses realistic?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

Difficult to assess how realistic these costs and benefits are. This is an issue for the firms who may be interested in bidding for Auditor work.

Proposals for Smaller Bodies

Q21. Do you agree that the threshold below which smaller local public bodies should not be subject to automatic external audit should be £25,000?

Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>

Further comments:

Although this is a question for small bodies to answer, the threshold still seems relatively low given the likely time and resource input required.

Q22. Are the additional transparency requirements we have proposed for those bodies who will not be subject to external audit robust enough to ensure that they will be accountable to the electorate?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

The proposed framework does not ease the burden on smaller bodies in terms of producing and publishing the data and therefore the costs associated will not reduce significantly for those bodies

Q23. Are these transparency requirements proportionate to the low levels of public money these bodies are responsible for?

Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>

What steps will smaller bodies need to take in complying with these new requirements? :

See comment above

Q24. Do you agree that our proposals for the eligibility of auditors of smaller local public bodies will ensure that they have the requisite expertise to undertake limited assurance audits?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>

Further comments:

No further comment

Q25. Are our proposals for the regulatory framework for the audit of smaller bodies proportionate?

Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>

Further comments:

See above comments

Q26. Do these proposals provide a proportionate and sufficiently flexible mechanism for procuring and appointing audit services to smaller local public bodies?

Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>

Further comments:

See above comments

(c) Additional questions

Do you have any other comments you wish to make?

No further comments

END