



Department for
Communities and
Local Government

Draft Local Audit Bill

Summary of Consultation Responses

© Crown copyright, 2012(year only)

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.communities.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

October, 2012

ISBN: 978-1-4098- 3675-9

Contents

Section 1:	Introduction	2
Section 2:	Overview of responses	3
Section 3:	Next steps	7
Annex A:	Respondent by sector	8
Annex B:	Responses to consultation questions	9
Annex C:	List of respondents	11

Section 1

Introduction

- 1.1 The draft Local Audit Bill consultation paper was published on 6 July 2012. It invited comments on the draft Bill, the consultation stage impact assessment of the reforms to local audit and the proposals for the audit of smaller public bodies (those with an annual turnover of less than £6.5m).
- 1.2 The consultation closed on 31 August 2012. One hundred and sixty-two responses to the consultation were received. The majority (74%) were from local authorities, parish and town councils or other audited bodies. A breakdown of the number of responses by sector is included at Annex A, and a full list of respondents at Annex C.

Section 2

Overview of Responses

- 2.1 The consultation paper invited general comments on draft Bill clauses, specific comments on major audits, the National Fraud Initiative, and powers for the Comptroller and Auditor General to undertake value for money studies, and asked fifteen direct questions on whether respondents agreed with specific provisions/policy proposals as set out in the clauses of the draft Bill. For fourteen of the fifteen direct questions a clear majority of respondents endorsed the proposals set out in the draft Bill (see Appendix B). The only exception was in relation to proposed requirements for local bodies to take advice from a majority independent auditor panel when appointing their external auditor. More detail on this is set out in paragraph 2.4 below.

Part 1: Abolition of Existing Audit Regime

- 2.2 Respondents expressed their general support for proposals to close the Audit Commission and put in place a new audit regime. Some highlighted the importance of a well-managed transition to the new audit arrangements, for example ensuring that whoever manages the remainder of the existing audit contracts once the Commission closes has the skills and resources to do this effectively. Our aim is to close the Commission by 2015, and we are working with them and other key partners (such as the National Audit Office, Local Government Association and Financial Reporting Council) to plan for a smooth transition to the new framework, including developing more detailed proposals for the handover of contracts in 2015.

Part 2: Basic Requirements and Concepts

- 2.3 The majority of responses received on Part 2 of the draft Bill were detailed drafting or technical points. Respondents welcomed the proposed clarification on the distinction between accounting records and the annual statements of accounts. We will be considering the detailed points on draft clauses in finalising the Bill.

Part 3: Auditor Appointment

- 2.4 Although generally supportive of the need for safeguards around independence, some respondents disagreed with the requirement for independent auditor panels, arguing that there were enough checks and balances already in place to ensure auditors were independent and/or that it would be difficult to establish panels. However, respondents welcomed the provision to allow joint panels, and recognised that this would make it easier to source independent panellists and enable groups of bodies to undertake

joint procurement. A clear majority agreed that the draft Bill provided sufficient flexibility to local bodies to set up joint panel arrangements and/or put in place other arrangements to suit local circumstances. Some respondents suggested that detailed guidance on how joint panels would work in practice would be helpful.

- 2.5 The Government is keen to safeguard auditor independence in a way which imposes the least additional burden on local bodies, and the draft Bill already allows bodies to share panels or use existing audit committees if they meet independence requirements. We are considering how else we can streamline the auditor appointment process, while ensuring that the independence of local audit is not compromised. The draft Bill includes a provision for the Secretary of State to issue guidance on how panels will operate in practice, and we will be working with the sector to develop this and address the issues raised in responses.

Part 4: Eligibility and Regulation of Auditors

- 2.6 There was general support for the approach of building on the Companies Act 2006 to develop the framework for auditor regulation and eligibility. Respondents highlighted the need to get the balance right on the latter, to ensure auditors have the specific skills and experience to meet the wider scope of public audit while avoiding unintended barriers to new providers entering the market.

- 2.7 We are keen to encourage greater diversity in the local public audit market. The outsourcing of the work of the Commission's in-house practice was an important step towards this, and has already led to two new entrants to the market. We are working closely with the key regulatory bodies and the sector to ensure the quality of audit is maintained, without imposing undue burdens on providers.

Definition of Major Audits

- 2.8 There were a range of suggestions about how major audits, which will be subject to monitoring by the Financial Reporting Council rather than recognised supervisory bodies, should be defined. The most popular proposals were for the use of a financial threshold or a definition based on types of bodies (e.g. upper-tier local authorities). Respondents were keen that the definition enables a proportionate and risk-based approach to monitoring.
- 2.9 As set out in the consultation paper accompanying the draft Bill, we intend to specify a small number of major audits in regulations, and enable the Financial Reporting Council to decide on annual basis if any other bodies should be included. This provides a helpful degree of flexibility, and mirrors the Companies Act in enabling the Financial Reporting Council to adopt a risk-based approach. We are working closely with the Financial Reporting Council to finalise the detailed definition.

Part 5: Conduct of Audit

- 2.10 Respondents were supportive of the proposed arrangements for the conduct of audit. The proposals which received most comments were for the Comptroller and Auditor General to prepare the code of audit practice and the refinements to the right to object, both of which were supported. The vast majority of respondents agreed that public interest reports on connected entities should be considered by their parent body.

Part 6: Data Matching

- 2.11 The draft Bill transfers the Audit Commission's data matching powers to Government, to enable the National Fraud Initiative to continue after the Commission's closure. This approach has been widely welcomed, and respondents to the consultation recognised the National Fraud Initiative's success in helping councils to combat fraud. The consultation sought suggestions on which Department should host the National Fraud Initiative in the future.
- 2.12 The most popular suggestion was for ownership to pass to the National Fraud Authority within the Home Office. In addition to the two other Departments mentioned in the consultation paper (the Department for Work and Pensions and the Cabinet Office), some respondents suggested the National Audit Office could take on the National Fraud Initiative, independent of Government. Some respondents made the general point that new owner of the National Fraud Initiative would need to maintain a broad outlook on fraud and have the ability to work across the public and private sectors.
- 2.13 The decision about future ownership will be taken following full consideration of all the options and further discussions with potential host Departments. The criteria set out in responses received will form part of Government's considerations. We are keen to work with the Local Government Association to ensure that the National Fraud Initiative continues to meet local government's current and future needs.

Part 7: Inspections, Studies and Information

- 2.14 Respondents were generally supportive of the proposal to enable the Comptroller and Auditor General to undertake local value for money studies (clause 94), and for this power to be extended beyond local government to other sectors. However, a large number of those respondents (mainly from the local government sector) wanted the power to be more limited in scope, for the Comptroller and Auditor General to be required to consult with the sector on proposed studies, and to place a maximum limit on the number of studies undertaken.
- 2.15 Clause 94 supports the National Audit Office's role in holding central government to account for the money it provides to local bodies by enabling it to undertake studies that support a more end-to-end assessment of policies and services delivered locally. The Government is discussing the

detailed approach further to ensure that powers are of the appropriate scope for the studies to add the most value.

Impact Assessment

- 2.16 A large majority of respondents agreed that the impact assessment had identified the key components of audit fees in the new framework. Some suggested that there might be some additional drivers on fees, such as the potential impact of changes to the regulatory framework. Some respondents commented that it was difficult to estimate precisely the costs and benefits of the new framework, but out of those who answered 'yes' or 'no' to Questions 19 and 20, most thought that the impact assessment correctly estimated the costs to businesses and compliance costs to local bodies.
- 2.17 By ending routine inspection and assessment, closing the Audit Commission and introducing a new local audit framework, the Government will be making savings of £650m over the next five years, most of which fall to local bodies. The potential costs of the new regulatory framework would be very small compared to these overall savings. We will be working with the regulatory and supervisory bodies to ensure that any costs associated with the new framework are minimised.

Audit of Smaller Bodies

- 2.18 There was strong support for the proposed audit arrangements for smaller bodies. Respondents were supportive of the continuation of the limited assurance regime and welcomed the proposal to establish a sector-led body to appoint auditors to smaller bodies. The majority of respondents supported the proposed external audit threshold of £25,000 and agreed with the proposals for increased transparency for those bodies not subject to external audit. A small minority thought the threshold should be pitched either higher or lower than £25,000.
- 2.19 Responses suggested that the approach outlined has been broadly accepted as proportionate and risk-based, and that a threshold of £25,000 struck the right balance between the need for assurance and the small amounts of public money handled by these bodies. We are continuing to work through the specific details of the new framework (which will be set out in regulations) with partners.

Section 3

Next Steps

- 3.1 As well as providing general comments on the key provisions in the draft Bill, we received a number of more detailed and technical points on specific clauses and Bill drafting. In finalising the Bill, the Government will consider both these detailed points and the general comments made, together with the report of the ad-hoc Committee undertaking pre-legislative scrutiny. An updated impact assessment will be published when the final Bill is introduced.

ANNEX A
Respondents by Sector

Type of respondent	Number of responses	%
Upper tier local authorities	49	30.2
Lower tier local authorities	27	16.7
Parish and town councils	26	16.0
Audit and accountancy firms	10	6.2
Professional bodies	4	2.5
Other audited bodies	18	11.1
Other bodies	14	8.6
Personal responses	14	8.6
Total	162	100%

ANNEX B

Responses to Consultation Questions

	Q4		Q5		Q6		Q9		Q12		Q16		Q18		Q19	
	<p>Do the clauses in Part 3 strike the right balance between ensuring independence in the audit process and minimising any burden on local bodies?</p> <p>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?</p> <p>Does the draft Bill strike the right balance in terms of prescription and guidance on the role of auditor panels?</p> <p>Do you agree with the proposed definition of connected entities in clause 20?</p> <p>Do you agree that public interest reports issued on connected entities should be considered by their 'parent' local body?</p> <p>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?</p> <p>Does the impact assessment identify the main drivers on fees?</p> <p>Are the estimates of local bodies' compliance costs realistic?</p>															
Type of respondent	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Upper tier local authorities	10	29	33	7	23	16	36	1	35	2	28	8	28	7	17	11
Lower tier local authorities	6	13	14	6	12	8	18	1	18	-	13	8	14	4	7	7
Parish and town councils	7	1	5	2	6	1	5	-	6	-	6	1	4	1	3	-
Audit and accountancy firms	3	4	6	2	3	4	5	3	7	2	8	-	6	2	2	2
Professional audit and accountancy bodies	1	1	2	-	-	2	2	-	2	-	3	-	2	-	-	2
Other audited public bodies	3	11	13	1	7	7	14	-	14	-	8	2	11	3	6	2
Other bodies	1	2	4	-	2	3	3	2	4	-	2	1	2	1	2	1
Personal responses	3	4	6	1	2	5	7	1	6	-	6	2	4	1	2	1
Totals	34	65	83	19	55	46	90	8	92	4	74	22	71	19	39	26

ANNEX B

Responses to Consultation Questions

	Q20		Q21		Q22		Q23		Q24		Q25		Q26	
	Are the estimates of the costs and benefits to businesses realistic?		Do you agree that the threshold below which smaller local public bodies should not be subject to automatic external audit should be £25,000?		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?		Are these transparency requirements proportionate to the low levels of public money these bodies are responsible for?		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?		Are our proposals for the regulatory framework for the audit of smaller bodies proportionate?		Do these proposals provide a proportionate and sufficiently flexible mechanism for procuring and appointing audit services to smaller local public bodies?	
Type of respondent	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
Upper tier local authorities	15	5	23	3	24	2	19	5	23	1	22	1	21	1
Lower tier local authorities	8	3	11	2	10	3	9	2	12	1	12	1	12	1
Parish and town councils	3	1	12	7	13	3	12	3	12	3	14	2	14	2
Audit and accountancy firms	1	3	5	3	2	5	5	1	5	2	2	2	4	2
Professional audit and accountancy bodies	-	-	1	1	1	1	2	-	2	-	2	-	2	-
Other audited public bodies	5	1	3	1	3	1	3	1	4	1	5	-	4	1
Other bodies	3	-	3	2	2	2	4	1	3	1	3	1	4	1
Personal responses	2	1	8	2	6	3	6	2	8	2	6	2	6	1
Totals	37	14	66	21	61	20	60	15	69	11	66	9	67	9

ANNEX C

List of Respondents

1. Association of Chartered Certified Accountants
2. Alton Town Council
3. Arun District Council
4. Ashfield District Council
5. Ashford Borough Council
6. Association of North East Councils
7. Audit Commission
8. Audit Scotland
9. BDO LLP
10. Bedford Borough Council
11. Bedfordshire Fire & Rescue Service
12. Birmingham City Council
13. Blackpool Council
14. Bodmin Town Council
15. Boston Borough Council
16. Bourton on the Water Parish Council
17. Bradford Metropolitan District Council (City of)
18. Breckland Council
19. Bristol City Council
20. Broads Authority / South Norfolk Council
21. Buckinghamshire and Milton Keynes Fire Authority
22. Buckinghamshire County Council
23. Bury Council
24. Bymhill and Weston under Lizard Parish Council
25. Charminster Parish Council
26. Cherwell District Council
27. Cheshire Fire Authority
28. Chief Fire Officers Association
29. Chippenham Town Council
30. CIFAS
31. Chartered Institute of Public Finance and Accountancy
32. City of London Corporation
33. Clayton Parish Council
34. Cleveland Fire Authority
35. County Councils Network
36. Cumbria County Council
37. Cumbria County Council (on behalf of Copeland Borough Council, Carlisle City Council, Cumbria Police Authority)
38. Dartmoor National Park Authority
39. Deloitte LLP
40. Devon and Somerset Fire and Rescue Authority
41. Devon County Council

ANNEX C

List of Respondents

42. Do the Numbers Ltd
43. Dorset Association of Parish and Town Councils
44. Dorset County Council
45. East Riding of Yorkshire Council
46. East Sussex County Council
47. East Sussex Fire Authority
48. Eastleigh Borough Council
49. Ernst & Young
50. Essex Association of Local Councils
51. Gloucestershire Association of Parish & Town Councils
52. Grant Thornton UK LLP
53. Gravesham Borough Council
54. Grayshott Parish Council
55. Great Dunmow Town Council
56. Hampshire County Council / Southampton City Council
57. Harpenden Town Council
58. Hartlepool Borough Council
59. Haughton Parish Council
60. Hereford & Worcester Fire & Rescue Service
61. Hertfordshire County Council
62. Huntingdonshire District Council
63. Hythe and Dibden Parish Council
64. The Institute of Chartered Accountants in England and Wales
65. Ichabod's Industries Ltd
66. Information Commissioner's Office
67. Institute of Chartered Accountants of Scotland (ICAS)
68. Ivybridge Town Council
69. Kent Association of Local Councils
70. Kent County Council
71. Kent Fire and Rescue Service
72. King's Lynn & West Norfolk Borough Council
73. Knowsley Metropolitan Borough Council
74. KPMG
75. Lancashire & Merseyside Association of Local Councils
76. Lancashire Combined Fire Authority
77. Leicestershire Fire & Rescue
78. Lincolnshire Association of Local Councils
79. Liverpool City Council
80. Local Government Association (LGA)
81. London Audit Group
82. London Borough of Camden
83. London Borough of Enfield

ANNEX C

List of Respondents

84. London Borough of Merton
85. London Borough of Redbridge
86. London Borough of Richmond upon Thames
87. London Borough of Southwark
88. London Borough of Waltham Forest
89. London Borough of Wandsworth
90. Maldon District Council
91. Manchester City Council and Greater Manchester Combined Authority and Greater Manchester Heads of Internal Audit (on behalf of the Heads of Internal Audit for the ten Greater Manchester Councils)
92. Mazars LLP
93. Merseyside Fire and Rescue Authority
94. National Anti-Fraud Network Data & Intelligence Services
95. Newbury Town Council
96. Norfolk County Council
97. North Lincolnshire Council
98. North Tyneside Council
99. North Yorkshire Fire
100. Northampton Borough Council
101. Northamptonshire County Association of Local Councils
102. Nottinghamshire County Council
103. Nottinghamshire Fire and Rescue Authority
104. Nuneaton & Bedworth Borough Council
105. On Behalf of Northamptonshire and Cambridgeshire County Councils
106. Oxfordshire County Council
107. PKF (UK) LLP
108. Reading Borough Council
109. Rossendale Borough Council
110. Royal Borough of Kensington & Chelsea
111. RSM Tenon
112. Rushmoor Borough Council
113. Sandwell MBC
114. Sevenoaks District Council
115. Shropshire Council
116. Sixpenny Handley with Pentridge Parish Council
117. Society of Local Council Clerks
118. Society of London Treasurers
119. Solihull Metropolitan Borough Council
120. Sopley Parish Council
121. South Hams District Council and West Devon Borough Council
122. South Norfolk Council / Broadland District Council

ANNEX C

List of Respondents

123. South Northamptonshire Council
124. South Somerset District Council
125. South Tyneside Council
126. Staffordshire County Council
127. Stockton on Tees Borough Council
128. Stourpaine Parish Council
129. Sunderland City Council
130. Surrey County Council
131. Surrey Heath Borough Council
132. Tameside Metropolitan Borough Council
133. Tamworth Borough Council
134. Telford & Wrekin Council
135. Thanet District Council
136. The National Association of Local Councils (NALC)
137. The Newspaper Society
138. Tonbridge & Malling Borough Council
139. Transport for London (TfL)
140. United Kingdom Without Incineration Network (UKWIN)
141. Walsall Council
142. Warrington Borough Council
143. Waverley Borough Council
144. West Moors Parish Council
145. West Oxfordshire District Council
146. West Yorkshire Passenger Transport Executive / West Yorkshire Integrated Transport Authority (WYITA)
147. Wolverhampton City Council
148. Woodhouse Parish Council
149. Yorkshire Local Councils Association
150. Personal response
151. Personal response
152. Personal response
153. Personal response
154. Personal response
155. Personal response
156. Personal response
157. Personal response
158. Personal response
159. Personal response
160. Personal response
161. Personal response
162. Personal response