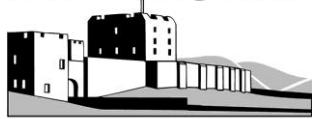


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## **AUDIT COMMITTEE**

### ***Committee Report***

**Public**

**Date of Meeting:** 11 January 2013

**Title:** DRAFT LOCAL PUBLIC AUDIT BILL

**Report of:** Director of Resources

**Report reference:** RD 70/12

**Summary:**

This report provides information on the Government's response to the consultation process for the draft Local Public Audit Bill.

**Recommendations:**

Members are asked to note the Government's response to the consultation.

**Contact Officer:** Alison Taylor  
Simon Smith

**Ext:** 7290  
226261

To: The Audit Committee  
11 January 2013

RD70/12

**DRAFT LOCAL AUDIT BILL**  
**SUMMARY OF CONSULTATION RESPONSES**

**1 INTRODUCTION**

- 1.1 On 6 July 2012, the Department for Communities and Local Government published the draft Local Audit Bill for consultation. The draft Bill set out the Government's proposals for a new local audit framework for public bodies, including the appointment of their auditors.
- 1.2 The consultation closed on 31 August 2012 and on 24 October 2012 the Department for Communities and Local Government published a summary of the consultation responses.
- 1.3 The consultation invited responses to 26 questions, of which 15 related to specific provisions or policy proposals set out in clauses of the draft Bill. The remainder of the questions invited general comments on each part of the Bill. 162 organisations and individuals responded to the consultation: the majority (74%) were audited bodies. For 14 out of the 15 specific questions, the majority of respondents endorsed the proposals set out in the draft Bill. The one exception related to the proposed requirement for local bodies to take advice from a majority independent auditor panel when appointing their external auditor. This was also a major issue for the Audit Committee and was reflected in the consultation response made by the Shared Internal Audit Service on behalf of all participants (see paragraph 1.9 below).
- 1.4 The Government intends to consider the responses alongside the recommendation of the ad-hoc Committee set up to undertake the pre-legislative scrutiny of the draft Bill in autumn 2012. The report also sets out the Government's intention to close the Audit Commission by 2015 and to develop more detailed proposals for the handover of contracts.
- 1.5 The following paragraphs set out the key areas of discussion during the consultation.

**Abolition of Existing Audit Regime**

- 1.6 Respondents were asked to comment generally on the proposals for the abolition of the existing regime. The Department reports that respondents expressed general support for the proposals to close the Audit Commission and put in place a new regime. However, some respondents emphasised the importance of making sure that the appropriate skills and resources were available to ensure a smooth transition.

## Basic Requirements and Concepts

- 1.7 Respondents were asked to comment generally on the proposals in this Part of the draft Bill. The majority of responses related to detailed drafting or technical points but there was support for the clarification on the distinction between accounting records that must be maintained during the year and the annual statement of accounts.

## Auditor Appointment

- 1.8 The proposals in this Part of the draft Bill have proved the most contentious. The question asking if the right balance had been struck between ensuring independence in the audit process and minimising the burden on local bodies was the only one in the consultation to which more respondents answered 'no' (65) than 'yes' (34). Responses to the question asking if the right balance had been struck in terms of prescription and guidance on the role of auditor panels were also closely balanced: 55 responded 'yes', 46 responded 'no'.
- 1.9 The Department reports that the consultation responses were generally supportive of the need for independence to be safeguarded but not everyone agreed with the requirements for independent auditor panels - arguing that there were already sufficient checks and balances in place. The Department reports that it will develop guidance on how panels will operate in practice and work with the sector to address the concerns raised in the consultation responses.

## Eligibility and Regulation of Auditors

- 1.10 The consultation asked two general questions and one specific question relating to this part of the Act. The specific question asked if respondents agreed with the proposed definition of connected entities in Clause 20. A clear majority agreed with the proposed definition (90 'yes' and 8 'no'). The definition is designed to ensure that the auditor is independent of the audited body by excluding officers and employees of an entity connected with the audited body.
- 1.11 General consultation responses provided support for the approach of building on the Companies Act 2006 to develop the framework for auditor regulation and eligibility. However, respondents commented on the need to achieve a balance between the standards for skills and experience required and the wish to encourage new providers to enter the market.
- 1.12 The consultation asked how major audits, which will be subject to monitoring by the Financial Reporting Council, should be defined in the regulations. There was popular support for the use of a financial threshold or a definition based on types of bodies (for example, upper tier local authorities). However, respondents wanted the definition to support a proportionate and risk-based approach to monitoring. The Department reports that it is working closely with the Financial Reporting Council to finalise the detailed definition.

## Conduct of Audit

- 1.13 There was clear support for the proposal that public interest reports issued on connected entities should be considered by their 'parent' local body: (92 'yes', 4 'no').

- 1.14 The proposal which received the most responses in the general request for comments on this part was for the Comptroller and Auditor General to prepare the code of audit practice and the proposed refinements to the right to object – both of which were supported.

#### Data Matching

- 1.15 The consultation requested suggestions about which Department should host the National Fraud Initiative in future. The most popular proposal was for ownership to pass to the National Fraud Authority within the Home Office. The decision about future ownership will be taken following consultation with potential host Departments.

#### Inspections, Studies and Information

- 1.16 There was broad support for the proposal that the National Audit Office should undertake value for money studies for all audited bodies. However, some respondents, particularly from the local government sector, wanted the power to be more limited in scope and for the Comptroller and Auditor General to be required to consult on the proposed studies.

#### Impact Assessment

- 1.17 There was agreement that the impact assessment had identified the key components of audit fees in the new framework, but some respondents commented that it was difficult to estimate precisely the costs and benefits of the new framework.

#### Audit of Smaller Bodies

- 1.18 There was strong support for the proposed audit arrangements for smaller bodies and the proposed external audit threshold of £25,000.

## **2. RECOMMENDATIONS**

Members are asked to note the Government's response to the consultation.

PETER MASON  
Director of Resources

**Contact Officer:** Alison Taylor  
Simon Smith

**Ext:** 7290  
226261