

LOCAL AUDIT BILL CONSULTATION AND OTHER CONSULTATIONS

LEAD OFFICER: Darienne Law,
Head of Corporate Resources

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SUMMARY:	The attached briefing note provides Members with an update on the Local Audit Bill consultation and the response submitted by Cumbria County Council on behalf of Internal Audit Shared Service participants, including Copeland Borough Council. Views of S.151 officers at participating councils have been taken into account via the Internal Audit Shared Service Operational Board.
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Recommendation:	Members are asked to note the response submitted on behalf of Internal Audit Shared Service participants, including Copeland Borough Council and the ongoing consultation with CIPFA on internal audit standards and the Annual Governance Statement.
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List of Appendices:

Appendix 1 – Briefing Note on Local Audit Bill Consultation and Other Consultations

Appendix 2 - Response to DCLG's consultation on draft Local Audit Bill

List of Background Documents: Web links to relevant background documents are included in Appendix 1 attached.

Consultees: S.151 Officer

BRIEFING NOTE

LOCAL AUDIT BILL CONSULTATION AND OTHER CONSULTATIONS

1.0 RECOMMENDATION

- 1.1 *Members are asked to note the Council's response to the Local Audit Bill consultation and the ongoing consultation with CIPFA on internal audit standards and the Annual Governance Statement.*

2.0 BACKGROUND

- 2.1 The Shared Internal Audit Service considered the consultation document so that a response could be prepared from the County Council, Carlisle City Council, Copeland Borough Council and the Police Authority. Discussions have also taken place with the Chair and Vice Chair of the Audit and Assurance Committee, and the Leader and Deputy Leader.
- 2.2 The major issue is the proposal to establish an audit panel to advise on the appointment of the external auditor. The Bill would allow for existing audit committees to undertake the role of the audit panel. However, many existing audit committees would not be able to perform this role without changing their membership as the Bill sets out a requirement for an independent chair and a majority of independent members for audit panels. The response highlights the good work of existing audit committees and the possible duplications between existing committees and new audit panels as the Bill allows for audit panels to undertake other functions which may be currently undertaken by existing audit committees.
- 2.3 In addition members may recall that the Local Government Association raised some concerns about the possible role of the National Audit Office and whether it had the expertise to examine value for money in local government. The response welcomes the National Audit Office's establishment of a local government reference panel and cautions against rapid growth in National Audit Office work in this area but fully recognises the valuable role the National Audit Office has to play in improving value for money.
- 2.4 The draft Local Audit Bill is at:
- <http://www.communities.gov.uk/publications/localgovernment/draftlocalauditbill>
- 2.5 The response submitted by the Shared Internal Audit Service on behalf of participants in the shared service is at Appendix 1.

UK Public Sector Internal Audit standards (CIPFA - 14 September closing date)

- 2.6 The Chartered Institute of Public Finance has issued draft proposals on public sector internal audit standards.
- 2.7 Whilst the draft includes some references to internal audit's need to add value, the focus is very much on provision of assurance on governance, risk management and control. Where value added is mentioned it is in terms of providing objective and relevant assurance and contributing to the effectiveness and efficiency of governance, risk management and control. The draft could be strengthened by including more explicit references to internal audit's role in improving value for money.
- 2.8 The draft includes references to 'Chief Audit Executive' rather than 'Head of Internal Audit' which was the subject of a CIPFA Statement in 2010.
- 2.9 The Shared Internal Audit Service considered the draft and a response will be submitted on behalf of participants in the shared service covering these points.

- 2.10 The consultation document is at:

<http://www.cipfa.org/Policy-and-Guidance/Consultations/Public-Sector-Internal-Audit-Standards>

Delivering Good Governance in Local Government (CIPFA - 21 September closing date)

- 2.11 CIPFA and SOLACE have issued a consultation draft proposing an addendum to the delivering good governance in local government framework.
- 2.12 The draft includes a revised governance framework which recognises the shifting patterns of service delivery, through partnerships, collaboration and commissioning, and the establishment of shared services and partnership boards. A skeleton Annual Governance Statement is also provided. Governance remains broadly drawn, including explicit references to ensuring best use of resources and value for money.
- 2.13 The Shared Internal Audit Service considered the draft and a response will be submitted on behalf of participants in the shared service.
- 2.14 The briefing note and addendum is at:

<http://www.cipfa.org/Policy-and-Guidance/Consultations/Addendum-to-Delivering-Good-Governance-in-Local-Government>

Appendix 1 Response to DCLG's consultation on draft Local Audit Bill

Contact: Simon Smith, 01228 226261, simon.smith@cumbriacc.gov.uk
Senior Manager – Audit Shared Service



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:	Simon Smith
Position:	Head of Audit, Shared Internal Audit Services
Name of organisation (if applicable):	Cumbria County Council
Address:	The Courts, English Street, Carlisle, Cumbria CA3 8NA
Email:	simon.smith@cumbria.gov.uk
Telephone number:	01228 226261

(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):

As current contracts with external audit firms run to 2017 (and possibly to 2020), local bodies will not be appointing their external auditor for five or more years. However, the appointment of the external auditor by local bodies is flagged up as the key benefit for localism and decentralisation, and this will not be realised for many years.

It is worth highlighting the contribution the Audit Commission has made to enhancing external audit standards in local government and its role in promoting better value for money. The benefit to the public sector from the National Fraud Initiative is recognised and future arrangements for the continuation of this work are set out and the National Audit Office is expected to carry out value for money reports of local government. But the Audit Commission has also supported benchmarking through its value for money profiles and it is important that this work continues.

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):

The requirements and concepts are appropriate and the arrangements for operating a threshold for smaller bodies appear sensible and pragmatic.

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):

This section causes the greatest concern as it requires the establishment of a new independent panel to consider the appointment of the external auditor.

Whilst the Bill allows existing audit committees to perform this role, the

stipulation that the panel should be chaired by an independent member and that independent members must be in a majority would mean that many existing audit committees would not be able to undertake the role unless they changed their membership [11(3)(c) and 12(1)].

The criteria for membership also looks particularly restrictive - a panel member must not have been a member nor an officer in the last five years and must not be a relative or close friend of a member or officer of the body [12(2)].

This presents a risk of a lack of democratic accountability in the decision making of the appointment.

In other areas of the public sector democratic accountability is increasing in importance eg to be elected Police and Crime Commissioner.

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:

As set out above, the auditor panel is likely to add to costs and the centrally defined criteria for panel membership contrast with the localism and decentralisation design principle. Existing audit committees are likely to be well placed to undertake this role.

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:

Joint procurement across public sector bodies in an area like Cumbria is likely to be essential in ensuring there is competition and all bodies get the benefit of reduced external audit costs. This is particularly the case with smaller public sector bodies. Without a critical mass of work,

external audit firms may be disinclined to bid for contracts.

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

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

Further comments:

As set out above, there are concerns on the establishment of these panels. The suggestions that other functions may be added to the panels could result in duplication and potential disputes between existing audit committees and panels [13(6)]. Much good work has been undertaken by existing audit committees and the proposals do not seem to build on this good work.

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

Comments:

The arrangements appear sensible.

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):

The arrangements appear largely sensible but it is unclear whether there is a need for further oversight of 'major audits' (see Q10 below).

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

Yes	<input checked="" type="checkbox"/>
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No	<input type="checkbox"/>
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Further comments:

None.

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

Comments:

We do not consider that a case has been made for additional oversight of 'major audits' and without a clearer rationale, we would suggest removing reference to 'major audits'.

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 arrangements appear largely sensible and the National Audit Office is well equipped to perform this important role in setting out codes of audit practice. It is encouraging that the National Audit Office has established a local government reference panel and the National Audit Office's work in local government will need to proceed with caution as the National Audit Office develops its expertise.

The risk based approach to the auditor's assessment of the authority's arrangements for securing value for money is described as proportionate but there will be a need to ensure that any potential increase in audit activity is not a blank cheque for additional audit work [60(1)(c)].

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:

None.

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):

It is important that the National Fraud Initiative work continues and the proposed arrangements are fully supported.

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

Comments:

The National Fraud Authority should be in a good position to provide overall coordination of this work.

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:

The arrangements appear sensible.

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:

The National Audit Office should develop its expertise and determine its

work programme in consultation with local government and other stakeholders. To this end it is encouraging that the National Audit Office has established a local government reference panel. The National Audit Office has a vital role to play in promoting value for money across local government, taking forward the Audit Commission's value for money work. It is however, important that in undertaking this role the National Audit Office engages with local government through the reference panel and more widely and for example agrees the themes of value for money studies in advance.

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

Comments

None.

Impact Assessment:

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

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

Are there any other drivers on fees?:

External auditors may look to place additional reliance on the work of internal audit which could result in additional costs.

As set out above, some organisations may face an increase in audit activity and no allowance is made for these costs. The assumption is that there is no overall increase in the total cost of audit but the basis for this assertion should be made explicit.

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

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

Further comments:

A very significant reduction in compliance costs is forecast which

appears unrealistic. As stated above there may be additional internal audit costs as external audit looks to place greater reliance on internal audit.

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

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

Further comments:

None.

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

Further comments:

None.

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 arrangements appear sensible although it needs to be made explicit whether the publication code applies to smaller bodies with turnover less than £25,000.

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

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

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

See 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:

The arrangements appear sensible.

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

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

Further comments:

The arrangements appear sensible.

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

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

Further comments:

The arrangements appear sensible.

(c) Additional questions

Do you have any other comments you wish to make?

None.

END