



# 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](mailto: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:	Ian Carruthers
Position:	Policy and Technical Director
Name of organisation (if applicable):	CIPFA
Address:	3 Robert Street, London WC2N 6RL
Email:	ian.carruthers@cipfa.org
Telephone number:	020 7543 5677

**(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 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 checked="" type="checkbox"/>	Professional Institute

**(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 type="checkbox"/>	
Other (please comment)	<input checked="" type="checkbox"/>	All areas

**(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):

**1.1 The potential 'gap' between the abolition of the Audit Commission and the end of the audit contracts that it has now let to the private sector creates a major uncertainty for local public bodies, the firms and the other stakeholders in the new audit arrangements for local public bodies. This needs to be resolved as soon as possible to allow all concerned to plan effectively, as well as to ensure the appropriate legal powers are in place.**

**1.2 CIPFA agrees that it is appropriate to remove the requirement for a minimum number of Commission members, given the transitional role of the Commission pending abolition. However, we would note that it may be necessary to make further appointments if the number of Commission members is such that the Commission cannot adequately fulfil its role until that point.**

**1.3 We have no further comments to make on Part 1 or Schedule 1 at this stage. We note that the Secretary of State may make a transfer scheme, and would welcome the opportunity to comment on any such scheme.**

#### 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):

**2.1 CIPFA welcomes the recasting of the requirements in relation to accounting so as to refer to accounting records and the statement of accounts. However, there is no reference to accounts needing to show a true and fair view. We believe that this is an important requirement that should be enshrined in primary legislation, as it is for companies.**

**2.2 We note that the draft Bill enables the Secretary of State to make regulations in a number of areas and would welcome the opportunity to**

comment on any such regulations at the appropriate time.

**2.3 CIPFA agrees that the qualifying condition for a smaller authority should be met if the higher of the authority's gross income for the year and its gross expenditure for the year does not exceed £6.5 million. We believe that this condition should be kept in line with the equivalent condition for small companies.**

**2.4 CIPFA does not consider it necessary to include committees or joint committees of local authorities in Schedule 2. These committees will be accounted for by their constituent bodies, and these statements of accounts will be subject to audit. The auditor will be able to access all necessary information as the committees will be classed as connected bodies.**

**2.5 Designating pension funds as relevant authorities in Schedule 2 would be beneficial. Currently, pension funds produce an annual report, but their statement of accounts is also required to be included in the financial statements of the administering authority. Designation would permit this requirement to be removed. We have expanded on this view in our response to question 11.**

**2.6 CIPFA believes that there would be merit in some restructuring of the draft Bill, so that Part 2 of the Bill included all the requirements in respect of accounting records, annual statements of accounts and the information to be published with the annual statements of accounts.**

### **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):

**3.1 We note the policy choice that the DCLG has made is to legislate for the creation of auditor panels rather than to reinforce the status and independence requirements around the audit committees which many local authorities have now established, which would have been our preferred option.**

**3.2 The Bill does not address potential interfaces and areas of overlap which may arise between these two types of committee. CIPFA believes that in order to address the potential for confusion in this area, there should be integrated guidance for local authorities covering all areas of their responsibilities in relation to external audit. CIPFA already has experience of preparing and monitoring this sort of guidance in a number of other areas (Prudential Code, Treasury Management Code**

and the Code of Practice on Local Authority Accounting) and we would be pleased to work with both the DCLG and the sector to develop such guidance for this area. This would build on the experiences from our existing publications in this area on local authority audit committees.

**3.3** With regards to Clause 16 (limitation of auditor's liability) CIPFA would not support the limitation of liability in any way that might compromise the quality of the audit.

**3.4** The issues associated with limitation of auditor's liability are complex and would take significant time to negotiate if this was done on an authority by authority basis. If a decision was taken centrally that limitation of liability was acceptable for local public audits, we believe that it should also be implemented through standard appointment terms, in order to ensure consistency and minimise the costs and risks for local authorities. These could be included in the guidance for authorities which we have recommended above.

**3.5** We would note that there is some uncertainty over the role of the auditor panel regarding liability limitation agreements. This uncertainty needs to be removed, especially if decisions regarding liability limitation agreements are to be dealt with through the standard appointment terms we would recommend. The confusion arises as Clause 13 (4) of the draft Bill requires the auditor panel to advise the authority on such agreements, at the request of the auditor, whereas paragraph 23 of the Explanatory Notes states that the requirement is to advise the authority's auditor, if so requested. Clause 16 (8) of the draft Bill requires the authority to take into account the views of its auditor panel before entering into a liability limitation agreement, adding further confusion.

**3.6** In addition, Clause 13(5) states that advice must be given to the auditor on liability limitation agreement if an auditor asks for it. It is not clear whether this clause is stating that the auditor panel must give the advice to the authority if the auditor asks for it, or whether the panel should give the auditor advice if they ask for it. We believe that it is doubtful whether most auditor panels would have the experience and knowledge to be able to advise their authorities on this complex area, and believe that there is also a potential conflict as the panel should surely only be working for the authority on this point.

**3.7** CIPFA believes that the role of the auditor panel should be to advise the relevant authority, not the auditor. It is likely that liability limitation agreements will be discussed as part of the procurement process, as the degree of any limitation may affect the fee. Interest in any liability limitation agreement is likely to go beyond the current auditor, and requiring the auditor panel to advise the auditor on liability

limitation agreements may result in a conflict of interest.

**3.6** It is not clear how the provisions in Part 3 of the draft Bill would ensure that the Secretary of State was aware of any failures to comply with the requirements of the draft Bill. CIPFA believes that this issue could be addressed by requiring authorities to file their accounts with their sponsoring department (in most cases this will be the DCLG). The requirement to file accounts with the regulator already exists in the companies and charities sectors.

**3.7** Further comments on the clauses in Part 3 of the draft Bill are included in our responses to questions 4 – 7 below.

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

Further comments:

**4.1** The proposed eligibility criteria for independent members of an auditor panel seem reasonable, but should be extended to ensure independence from any other potential interests such as partners, staff and recent retirees from audit firms that are authorised for public audit. The draft Bill does not address the other qualities that will be required of an auditor panel member, such as relevant experience or expertise.

**4.2** As discussed above, CIPFA has published authoritative guidance in this area, 'Audit Committees: Practical Guidance for Local Authorities'. It states that an audit committee membership should be balanced, 'objective, independent of mind and knowledgeable'. It sets out additional guidance regarding the skills and experience deemed necessary; similar skills and experience will be required by auditor panel members, and CIPFA recommends that this is included in the authoritative guidance for auditor panels which we have recommended above.

**4.3** We note that the draft Bill enables the Secretary of State to make regulations regarding the constitution of an auditor panel and as part of the work on the integrated guidance for authorities that we have recommended, we would welcome the opportunity to comment on any such regulations at the appropriate time. CIPFA believes that, in making any such regulations, consideration is given as to whether it would be

**appropriate for portfolio holders to be auditor panel members.**

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:

**5.1 CIPFA believes Clause 11 provides sufficient flexibility to local bodies to put in place arrangements (including joint panel arrangements) to suit local circumstances.**

**5.2 This view is a provisional view, based on the draft Bill alone. As Clause 11 enables the Secretary of State to make regulations in this area, it is not possible to come to a firm view until either the regulations are available in draft form, or it is confirmed that regulations will not be issued in this area.**

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:

**6.1 CIPFA is concerned that the draft Bill does not strike an appropriate balance between prescription and guidance. For example, the whole of Clause 12 regarding independence seems to be far too prescriptive for a bill and would be better suited to secondary legislation, which allows more flexibility to respond to changes and issues which emerge in practice. We believe that the whole Bill would benefit from a review of the balance between what must be in primary legislation and where it is more appropriate to introduce the potential for flexibility through provision for secondary legislation.**

**6.2 We note that the role of auditor panels in relation to the resignation or removal of a local auditor is to be specified in regulations.**

The approach outlined in the policy overview suggests that the auditor panel will become involved in the removal process once notice has been given (to both the local auditor and the auditor panel) of an authority's intention to remove the local auditor. We believe that it is more appropriate for the auditor panel to be involved at an earlier stage in the removal process, although this may be covered by the requirement for the auditor panel to advise the authority on the maintenance of an independent relationship with the auditor. Again this is a matter likely to be better dealt with through secondary legislation.

**6.3** We are concerned that the Draft Bill is silent on the issue of what happens in the event that a body ignores the advice of its auditor panel. If this is indeed a key element in ensuring auditor independence then there should be some consequences for the body if it overrides the advice of the panel. There are a number of options in this area including a requirement to state the reasons for the failure to follow the panel's advice, and reference to the Secretary of State which we would be pleased to discuss further with the Department.

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

Comments:

**7.1** Our comments on the role of the auditor panel in respect of removal and resignation are set out in paragraph 6.2 above.

**7.2** The nature of, and reasons for, the proposed role for the regulatory supervisory body should be clarified. CIPFA believes that it would not be appropriate for the Registered Supervisory Body to have any role in approving or reversing the decision on removal or resignation. Instead its role should be investigation of any breach of standards by the member.

**7.3** We note that the draft Bill enables the Secretary of State to make regulations in this area and would welcome the opportunity to comment on any such regulations at the appropriate time. We are concerned that the draft Bill imposes minimal consequences on an authority as a result of an auditor resignation or removal; in the private sector, there are specific consequences of an auditor resignation that reflect the seriousness of such an occurrence. The existence of similar consequences in regulations would enhance the independence of local auditors.

**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):

**8.1 CIPFA considers that the independence requirement set out in Clause 20 is appropriate. However, we believe that the reference in subsection (6) should be to the local auditor of the relevant authority, not to the local auditor of P. At the very least this confusion needs to be removed by changing the terminology. Our preferred approach though would be to address this issue through secondary legislation, to allow the flexibility to address issues as they arise in practice.**

**8.2 The independence requirement in Clause 20 applies only to the person appointed as the local auditor of a relevant authority, not to other persons who undertake the audit. Whilst CIPFA believes that the need for such other persons to demonstrate independence is adequately dealt with in the Ethical Standards for Auditors, the Department may wish to consider whether it wishes to impose further requirements on those persons undertaking the audit. As an aside, CIPFA considers that the Ethical Standards for Auditors may need to be extended to reflect the wider scope of public audit and to include specific reference to public bodies. This could be achieved by: amending the Ethical Standards themselves; by issuing supplementary guidance (such as an FRC Practice Note on the application of the Standards); or by including the necessary requirements in the proposed Code of Audit Practice to be published by the Comptroller and Auditor General.**

**8.3 Clause 37 (6) allows for the register of auditors to be kept with the register of statutory auditors under the Companies Act 2006 and related regulations. CIPFA considers that it is important for the text to make clear that this single register is a register of firms approved for the delivery of public audit within the meaning of the Bill, and that separate registers of individual, appropriately qualified public auditors will be maintained by their professional bodies. While there is some overlap between the scope of quality control activity in the commercial sector and the public sector, there are also some very material differences as a result of the subject matter, focus and scope of local public audits (and, by implication, the training necessary for the effective performance of those duties). When designing a system to replace that of the Audit Commission, therefore, the additional responsibilities of public audit must be built in. Similarly (and in contrast to the Companies Act) the draft Bill is silent on arrangements for the appropriate training and supervision of registered public auditors. The arrangements for dealing with this have been the subject of detailed consideration between the Department and the profession, and CIPFA believes it is important for the Bill to either specify these arrangements or to state where and how this will be addressed.**

**8.4 Overall the wording of this part of the draft bill is very general, seemingly being lifted from companies' legislation. We are concerned that if there is no reference to the factors that make local public audit unique, the framework could be 'watered down'. These factors need to be properly articulated because, if public audit is to be regulated by the FRC, the design and operation of the new regime will need to embed an understanding of the different stakeholder groups and purposes of public sector reporting. The membership and resourcing of that regulatory body itself would therefore need to be reviewed. For example, its membership and arrangements will need to reflect the broader scope of public audit and the distinctive local government legal framework. The set up and operation of the new regime will also need to be appropriately funded.**

**8.5 Paragraph 2 (6) of Schedule 3 allows the Secretary of State to refuse an application for recognition as a supervisory body if the Secretary of State thinks the order is unnecessary as there are (or are likely to be) one or more other recognised supervisory bodies. Given the different nature of local public audit, CIPFA believes that a wider range of recognised supervisory bodies than under the Companies Act 2006 regime may be appropriate.**

**8.6 CIPFA considers it would be helpful if Paragraph 25 (1) of Schedule 3 were to be redrafted. The paragraph refers to 'the body' (meaning a recognised supervisory body, but also to 'the body performing the inspections', and at times it is not as clear as it could be which body is being referred to.**

**8.7 CIPFA would welcome the opportunity to comment on any regulations issued under this Part of the draft Bill at the appropriate time.**

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:

9.1 CIPFA agrees with the proposed definition of connected entities in Clause 20, though again this might be better dealt with through regulation or other subsidiary guidance. This would allow the Department to amend the definition in response to changing circumstances, such as those discussed in paragraphs 11.19 - 11.21 below.

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

Comments:

**10.1 As the main groups of local authorities are relatively homogeneous in the functions they undertake, the criteria for inclusion should be financially based. In order to avoid raising audit compliance costs significantly, and to avoid placing an undue burden on the public sector compared with the private sector, only the largest public bodies should be covered by the definition.**

## **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):

**11.1 CIPFA also considers that in addition to being required to produce a code of audit practice, the Comptroller and Auditor General should be given the power to issue guidance in support of such a code (including guidance on the interpretation of the code) where required. This will support the consistent application of the code of audit practice.**

**11.2 CIPFA considers that the list of bodies to be consulted by the Comptroller and Auditor General before preparing a code of audit practice (Clause 55) should include professional accountancy bodies. This is because professional accountancy bodies with relevant experience and expertise to comment may not be recognised supervisory bodies.**

**11.3 Similarly, we consider that professional accountancy bodies (who may not be recognised supervisory bodies) should be consulted by the Secretary of State under Clause 82 (Accounts and Audit Regulations).**

**11.4 In Clause 63 (2), the reference to subsection (2) is circular, and should be corrected. We assume the reference should be to subsection (1).**

**11.5 There is an important problem with Clause 63(4) in that it could impair an auditor's independence if they have to 'consult' with the**

auditor panel before issuing a Public Interest Report. We would suggest that this requirement could be simply changed to 'inform' which would be consistent with the function of the panel in overseeing issues that could hinder independence or affect the auditor/authority relationship in another detrimental way.

**11.6** CIPFA considers that Clause 64 should more explicitly state the requirement on the local auditor to give an opinion on the statements of accounts.

**11.7** Under Clause 64, an auditor may make a written recommendation to the relevant authority that must be considered by that authority (Clauses 67 and 68). Consideration of the recommendation cannot be delegated (Clause 69). It is unclear how these provisions relate to the recommendations that are made in the normal course of audits under International Standard on Auditing (ISA) (UK and Ireland) 260 'Communication of Audit Matters With Those Charged With Governance'. Recommendations under ISA 260 are made as part of the normal audit process, and would normally be considered by an authority's audit committee (or equivalent).

**11.8** If the intention is that all such recommendations are to be considered by the relevant authority without being delegated to the audit committee, this may result in a full Council meeting considering relatively minor recommendations. If the intention is that a written recommendation falling under Clause 64 should only relate to more substantive matters, then it would be helpful if this could be specified, either in the draft Bill or in regulations. Guidance on how the auditor should distinguish between recommendations required by Clause 64 and those required under ISA 260 would also be helpful.

**11.9** Section 65(4) doesn't make sense as currently drafted. It appears to say that there is a shorter, limited period of time under which a 'non-immediate report' has to be sent than for an 'immediate report'. The difference between immediate and a non-immediate reports is also unclear and there is no prescription concerning whether these have to be final. Fifteen days is a relatively short time to send a report from the 'day on which the audit is concluded'. Given how much discussion and drafting time it takes to produce and issue a normal audit report, let alone a Public Interest Report, this timescale seems to be very short. This might work for a so-called 'immediate' report but certainly not for a 'non-immediate' one.

**11.10** Clause 66(5) – we assume the reference to an 'audit panel' should actually be to an auditor panel.

**11.11** Clause 74 needs clarification concerning the definition of what

personal information is. It is quite fragmented and, for example, sub-clauses 4 and 6 look like they could be merged.

**11.12** Clause 75 does not state that the cost that may be incurred by the authority or the auditor should be in proportion to the subject matter of the objection. We believe it is important that such a provision be included to avoid unnecessary expenditure of public money on nugatory or vexatious complaints.

**11.13** This Clause also does not include any provisions permitting the local auditor to recover reasonable expenses associated with an objection, whereas such provisions do exist in relation to Public Interest Reports and Advisory Notices. The DCLG may wish to consider whether there are circumstances when it would be appropriate for a local auditor to be able to recover reasonable expenses incurred in dealing with an objection.

**11.14** Clause 82 (Accounts and Audit Regulations) permits the Secretary of State to make regulations in respect of various accounting and auditing matters. This includes, at paragraph (g), the maintenance by relevant authorities of systems of internal control. CIPFA believes that it would be helpful for this paragraph to be extended to include wider governance matters. Following authoritative guidance issued by CIPFA and SOLACE (Delivering Good Governance in Local Government: Framework), local authorities currently produce an Annual Governance Statement. This has a wider scope than the system of internal control.

**11.15** CIPFA would welcome the opportunity to comment on any new or revised Accounts and Audit Regulations at the appropriate time.

**11.16** The remaining paragraphs of the response to question 11 do not directly relate to the clauses in Part 5 as they are currently drafted, but make suggestions as to how they could be extended to provide additional benefits for local authorities.

**11.17** Local authorities that are administering authorities for Local Government Pension Schemes are required to provide an Annual Report for the pension fund, and also to include the accounts of the pension fund in their own annual statement of accounts. In Scotland, an administering authority need not include the pension fund accounts in its annual statement of accounts, as long as it provides a general description of the pension scheme, the administering authority's role and details of the availability of the LGPS annual report.

**11.18** The requirement to include the pension fund accounts in the administering body's annual statement of accounts has arisen because,

under the Audit Commission Act 1998, there was a single audit engagement covering both the authority's own accounts and the pension fund accounts. The introduction of the Local Audit Bill provides an opportunity to consider whether it would be appropriate for authorities to follow a similar approach to that adopted in Scotland. If this is considered desirable, CIPFA believes that this should be implemented through standard appointment terms, in order to ensure consistency and minimise the costs and risks for local authorities. A minor amendment to the LGPS regulations to align reporting dates may also be useful here.

**11.19** Clause 61 ensures that a local auditor has a right of access to information held by a relevant authority or an entity connected with a relevant authority. CIPFA believes that there may be circumstances in which this right should be extended to entities which do not meet the definition of a connected entity (as their accounts are not included in the relevant authority's statement of accounts), but which receive funding from the authority, and where the authority has statutory duties in respect of the entity.

**11.20** CIPFA/LASAAC, a joint Board of CIPFA and the Local Authority (Scotland) Accounts Advisory Committee, publishes the Code of Practice on Local Authority Accounting in the United Kingdom. This Code is updated annually after a formal consultation process.

**11.21** CIPFA/LASAAC's proposals for the 2013/14 Code [see <http://www.cipfa.org/Policy-and-Guidance/Consultations/The-Code-of-Practice-on-Local-Authority-Accounting-in-the-UK-201213-Code-Update-and-201314-Code>] include significant changes to the way maintained schools are accounted for in local authority accounts. Under the proposals, only Community and Community Special Schools would be included in an authority's accounts, and would therefore be classed as connected entities. Other classes of maintained schools (Voluntary Controlled, Voluntary Aided, Foundation and Foundation Special Schools) would not be classed as connected entities. Nevertheless, local authorities are required to include in their statement of accounts a note that Dedicated Schools Grant has been deployed in accordance with statutory provisions. Authorities may also be required to include more details of these schools' income and expenditure in their Whole of Government Accounts returns. Extending an auditor's right of access to information to include these schools might therefore be beneficial.

**11.22** As we mentioned in our response to Question 2, we believe that some restructuring of the Bill, which would move some provisions currently included in Part 5 of the Bill to Part 2 of the Bill, would be beneficial.

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:

**12.1 CIPFA agrees that public interest reports issued on connected entities should be considered by their 'parent' local body.**

## **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):

**13.1 CIPFA has no comments on the clauses in Part 6. Our comments on data matching are included in our response to question 14 below.**

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

Comments:

14.1 CIPFA considers the National Fraud Initiative to be a key element of an effective and robust counter fraud preventative strategy. To remain effective, it needs to continue to operate independently (as it has done under the ownership of the Audit Commission). We also consider that the Initiative is more likely to work effectively if local government has a say in the operation of the initiative.

14.2 CIPFA considers that the desirable level of independence can best be achieved through an independent Board, established to provide collaborative governance through all stakeholders. This will ensure both central and local government representation, and that the NFI delivers benefits both to

stakeholders and its users.

14.3 We are aware that the National Fraud Authority is in favour of such an approach and is already working closely with NFI to ensure that there are good links between the NFI, Fighting Fraud Together (the national fraud strategy) and Fighting Fraud Locally (the local government strategy). Work is already underway to create matches and real time checking to support Fighting Fraud Locally. Given the apparent synergies between these various initiatives and strategies, there may be some benefit in the National Fraud Authority managing the National Fraud 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:

**15.1 CIPFA agrees that the powers conferred on the Comptroller and Auditor General to carry out examinations into the economy, efficiency and effectiveness of public sector bodies should be extended to English local authorities.**

**15.2 We note that Clause 94 (10) does not currently include Police and Crime Commissioners or Chief Constables within the definition of an English local authority. As these corporations sole are subject to many of the same regulatory and accounting issues as those bodies defined as English local authorities, CIPFA considers that the Comptroller and Auditor General's remit should be extended to Police and Crime Commissioners and Chief Constables.**

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:

**16.1 CIPFA agrees 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. Our comments regarding Police and Crime Commissioners and Chief Constables in our**



**response to question 15 are also applicable here.**

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

Comments

**17.1 CIPFA has no comments to make on the other clauses in Part 7 or Schedule 5.**

## **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?:

**18.1 We agree that the impact assessment generally identifies the main drivers on fees. However, a further driver that might arise is an upward pressure on external audit time if authorities, in adapting to reduced levels of funding, undertake less internal audit and other assurance work that could be relied on by the external auditors. If this arose, there may be an increase in external audit time (and hence cost) to deliver the same level of assurance.**

**18.2 Currently, the Audit Commission provides an indemnity covering the costs incurred by a firm in any legal actions that arise in the course of that firm undertaking its statutory functions. The abolition of the Commission will remove this indemnity, and this could be an upward cost driver.**

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

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

Further comments:

**19.1 CIPFA notes the wide range of the estimate of compliance costs**

**in respect of the Comprehensive Area Assessment, and would urge caution in relying on the mid range estimate. It may be more useful to quote a range of compliance costs (and hence estimated savings).**

**19.2 Whilst the estimate of compliance costs for the new framework has been prepared on a logical basis, it may be subject to a number of external pressures which could increase costs. For example, if insufficient appropriately qualified persons are willing to become the chair or a member of an auditor panel, market forces may drive up remuneration costs.**

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

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

Further comments:

20.1 CIPFA has no comment to make on the estimates of the costs and benefits to businesses.

20.2 We would note that, given the fact that the Comprehensive Area Assessment and the inspection regime were withdrawn in 2010, it would be helpful to identify in the impact assessment those costs and savings arising from the decision to terminate these services separately from those arising from the introduction of the new framework under the draft Local Audit Bill.

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

**21.1 CIPFA agrees that this threshold is appropriate. Whilst it is important that there is adequate assurance over how all public money is spent, it is likely that below this level, any costs of audit would be disproportionate to the risks, provided other appropriate assurance mechanisms are in place.**

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:

**22.1 CIPFA believes that the additional transparency requirements proposed for those bodies that will not be subject to external audit are sufficiently robust to ensure that they will be accountable to the electorate, and that they will help ensure that public money will be safeguarded. The existence of internal audit is an important reason for coming to this conclusion, and we would have concerns if an internal audit report was not available.**

**22.2 We do not think that it is clear from the Bill how non-compliance with the proposals will be addressed. A small number of smaller bodies have regularly failed to publish their accounts, and CIPFA believes that there should be a sanction (such as the removal or restriction of the power to raise tax) available to ensure accountability to local taxpayers.**

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? :

**23.1 CIPFA would recommend that the costs associated with the**

**transparency requirements are monitored to ensure that they are proportionate. These costs could be compared to the cost of an audit for such bodies to ensure that the proposed approach represents value for money.**

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:

**24.1 CIPFA supports the proposals. Whilst the criteria are more onerous than those for an independent examination of a small charity, we believe that this is justified by the fact that public money is involved.**

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:

**25.1 CIPFA supports the proposals, provided that the sector-led body can demonstrate sufficient independence both on formation and in its subsequent activities.**

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

**26.1 CIPFA supports the proposals, provided that the sector-led body can demonstrate sufficient independence both on formation and in its subsequent activities.**

### (c) Additional questions

Do you have any other comments you wish to make?

**Audit of local public bodies has a critical role to play in ensuring that those responsible for handling public money are held fully accountable for its use. CIPFA believes that the three principles of public audit should continue to be central to the Government's new audit and inspection regime for local public bodies: wide audit scope; ability of the auditors to make the results of their audits publicly available; and independence of public audit from the organisations being audited. We believe these principles should be included in the primary legislation articulating the key features of the local public audit regime as we recommended in paragraph 8.4.**

**The abolition of the Audit Commission, the major NHS reforms and the creation of academies present an opportunity to develop a more consistent pan-public sector approach to the audit of public money wherever it is ultimately spent. Whilst we have commented on the draft Local Audit Bill as currently drafted, the provisions regarding the audit of local NHS bodies will be as equally important when they are drawn up.**

**We note the dependence of the proposals on legislative timetables. We look forward to continuing to work closely with the government as the draft legislation, the detailed proposals for supporting secondary legislation and other aspects of the new arrangements are developed in response to the consultation, as well as during the implementation period.**

**END**