

**Report to the Audit and Governance
Committee**



Report reference: AGC-005-2012/13
Date of meeting: 24 September 2012

**Epping Forest
District Council**

Portfolio: Finance and Economic Development

Subject: Draft Local Audit Bill

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To note the action taken regarding the consultation on the draft Local Audit Bill.

Executive Summary:

This report provides an overview of the Draft Local Audit Bill which was published on 6 July 2012 for consultation and pre-legislative scrutiny and the action taken regarding the consultation.

Reasons for Proposed Decision:

Limited time given for consultation period.

Other Options for Action:

No other options.

Report:

1. In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market. A robust regulatory framework would be established, ensuring that high standards of auditing continue to be upheld.
2. This draft Local Audit Bill abolishes the existing regime and sets out the proposed new audit framework for local public bodies which were previously covered by the Audit Commission regime.
3. The draft Bill was published on 6 July 2012 for consultation and pre-legislative scrutiny. The consultation on the draft Local Audit Bill ran until 31 August 2012.
4. The main provisions in the draft Local Audit Bill are:
 - The repeal of legislation setting up the Audit Commission (the Audit Commission Act 1998) and provision to transfer assets, liabilities and continuing functions to other bodies.

- A requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel.
 - The creation of a new regulatory framework for local public audit, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local public audit services.
 - The transfer of responsibility for setting the high level Code of Audit Practice to the National Audit Office.
 - Powers for the National Audit Office to undertake studies of thematic value for money issues relating to local government, and to access information needed to do so.
5. The Bill also lays down provision for the continuation of the National Fraud Initiative data matching exercises following the demise of the Audit Commission.
6. The draft Bill was considered by the Corporate Governance Group (CGG) on 18 July 2012 to consider whether a response was required to any of the questions raised in the Bill (appendix 1).
7. The Corporate Governance Group (CGG) noted with concern that this Government consultation was due to be conducted over the holiday period and that based on previous consultations submitted by the Council there seemed little likelihood of effective influence being exerted on Government thinking. Reference was made to the previous comments made by this and other councils regarding the new audit regime which to a significant extent had been found to be disregarded.
8. CGG decided therefore not to submit detailed observations on the current Bill but, in view of likely interests by Audit and Governance Committee members, requested that members of the Committee should be advised of the main proposals in summary terms and asked whether there are any specific comments they wish to make.
9. Audit and Governance Committee members were consulted on 31 July 2012 and no specific comments were raised for referral to the Department for Communities and Local Government.
10. CGG requested that an information item should be included on the next agenda for the Audit and Governance Committee in order to record the receipt of the draft Audit Bill and any observations which members asked to be put forward.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Department for Communities and Local Government draft Bill and guidance.

Impact Assessments:

Risk Management

The Audit and Governance Committee are required to maintain an overview of the effectiveness of the Council's Risk Management arrangements and to seek assurances that action is being taken on risk related issues as identified by Auditors and Inspectors.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

APPENDIX 1: CONSULTATION QUESTIONS AND HOW TO RESPOND

The following table lists the consultation questions posed in the document.

Draft Local Audit Bill:

- Q1. Do you have any comments on the clauses in Part 1 or Schedule 1?
- Q2. Do you have any comments on the clauses in Part 2 or Schedule 2?
- Q3. Do you have any comments on the clauses in Part 3?
- 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?
- 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?
- Q6. Does the draft Bill strike the right balance in terms of prescription and guidance on the role of auditor panels?
- Q7. Do you have any comments on the proposals set out above (paragraphs 26-34) on removal and resignation?
- Q8. Do you have any comments on the clauses in Part 4 or Schedules 3 and 4?
- Q9. Do you agree with the proposed definition of connected entities in clause 20?
- Q10. Do you have any views on how major audits should be defined in regulations?
- Q11. Do you have any comments on the clauses in Part 5?
- Q12. Do you agree that public interest reports issued on connected entities should be considered by their 'parent' local body?
- Q13. Do you have any comments on the clauses in Part 6?
- Q14. Do you have any views on the new owner(s) of the National Fraud Initiative?
- 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?
- 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 Bill?
- Q17. Do you have any comments on the other clauses in Part 7 or Schedule 5?

Impact Assessment:

- Q18. Does the impact assessment identify the main drivers on fees? Are there any other drivers on fees?
- Q19. Are the estimates of local bodies' compliance costs realistic?
- Q20. Are the estimates of the costs and benefits to businesses realistic?

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?

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?

Q23. Are these transparency requirements proportionate to the low levels of public money these bodies are responsible for? What steps will smaller bodies need to take in complying with these new requirements? Are there any cost implications?

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?

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

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