

LOCAL AUDIT STRATEGY – CONSULTATION QUESTIONS AND RESPONSES

The annex includes copied extracts from the Governments consultation paper “Local Audit Reform – a strategy for overhauling the local audit system in England”. The consultation questions presented in that document are included here along with the proposed responses.

The strategy refers to six key areas of required reform:

<p>1: The purpose of local audit</p> <p>Reforms must be guided by a vision statement, key principles and be driven by user needs.</p>
<p>Commitments</p> <p>The government commits to:</p> <ul style="list-style-type: none">• a local audit vision with eight core principles.• undertake a post-implementation review to assess whether changes to value for money requirements in the 2020 and 2024 Code of Practice have led to more effective consideration of financial resilience and VFM, and to conduct this review by the end of 2027. This review will consider whether auditors should assess VFM achievement.
<p>2: Local Audit Office remit</p> <p>The government accepts the Redmond and Kingman Reviews’ recommendations for a new oversight organisation to simplify the system and drive change.</p>
<p>Commitments</p> <p>The government commits to a LAO which would:</p> <ul style="list-style-type: none">• be statutory and independent, with a remit to streamline and simplify the system.• assume the functions of appointing and contracting auditors for local authorities. This would remove the power for authorities to appoint their own auditor.• adopt ownership of the Code of Audit Practice from the NAO and deliver relevant training. It would have powers to interpret ISA requirements for the local audit context (though the FRC would continue to maintain ownership of ISAs for the UK as a whole).• hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision• publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, VFM arrangements and statutory recommendations and PIRs.

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- oversee professional bodies with regard to their remit for the qualification, registration and conduct of local auditors.

Consultation Questions:

Question 1

Do you agree the LAO should become a new point of escalation for auditors with concerns?

- Strongly Agree
- **Agree**
- Disagree
- Strongly Disagree

Please explain your answer:

This will simplify the approach

Question 2

Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?

- Strongly Agree
- **Agree**
- Disagree
- Strongly Disagree

Please explain your answer

Where there are agreed evidence based findings to make such action appropriate.

Question 3

Should the LAO also take on the appointment and contract management of auditors for smaller bodies in the longer term? If so, when should responsibilities transfer from SAAA?

- Yes
- **No**

If yes, when should responsibilities transfer from the Smaller Authorities Audit Appointment Ltd (SAAA)?

If no, please explain your answer

The case in the consultation is not strong enough to understand the benefits of this and the concern would be the overall capacity in the system to include coverage of the smaller bodies. The consultation document does not indicate that there is a significant issue with the current approach.

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Question 4

Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?

- Yes
- No

Please explain your answer (optional) [Free text box]

This could potentially provide greater consistency in relation to enforcement cases, however there is a lack of detail around the process to ensure there is a fair representation of both parties' views and opinions. Or any appeals process.

Question 5

How could statutory reporting and Public Interest Reports be further strengthened to improve effectiveness?

Please explain your answer:

Response to be determined

Question 6

Should the scope of Advisory Notices be expanded beyond unlawful expenditure, or actions likely to cause a loss or deficiency, as defined by the Local Audit and Accountability Act, to include other high-risk concerns?

- Yes
- No

Please explain your answer (optional)

This could have stopped some of the financial difficulties that some local authorities have found themselves in, however there would need to be a clear process and right to respond that should be included within any public reporting.

Question 7

Should the LAO own the register of firms qualified to conduct local audits?

- Yes
- No

Please explain your answer (optional)

Yes, it would make sense to maintain accountability for quality standards throughout the contract management process.

Question 8

Should the LAO hold the power to require local bodies to make changes to their accounts, so that auditors could apply to the LAO for a change to be directed instead of needing to apply to the courts?

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- Yes

- No

Please explain your answer

In principle subject to our answer to question 4

3: Financial reporting and accounts

Reforms should consider the needs of the user and the impact of accounting requirements on the work of account preparers, auditors and the wider audit system.

Commitments

The government commits to:

- review, in consultation with relevant stakeholders, the content and format of local authority accounts. This will include ensuring that the accounting code does not require more disclosures than are necessary and consider the purposes and users of local authority accounts.
- work with devolved governments to determine the appropriate approach to ensure accounting practices are consistent across the UK including if the Accounting Code is transferred to the LAO.
- consider whether to develop primary legislation to separate pension fund accounts from administering authority main accounts.
- ensure that if the Accounting Code is transferred to the LAO, it would be freely available to users of local body accounts.
- consider the introduction of Standardised Statements in the longer term.

Consultation Questions

Question 9

What are the barriers to progressing accounts reform?

Please explain your answer

The current accounts process operates within a complex regulatory environment, requiring extensive disclosures that the private sector is not obligated to provide. This creates significant challenges and inefficiencies. In recent years, a lack of consensus among stakeholders—particularly disagreements between auditors, local authorities, and regulatory bodies—has further delayed reforms and solutions. Achieving an agreed consensus before codes of practice are issued would be beneficial, enabling smoother implementation. Additionally, simplifying disclosures presents an opportunity, such as addressing duplication in the narrative statement, which often repeats information already publicly available. Resource constraints also pose a critical barrier, as both local authorities and audit firms face budget pressures, staff shortages, and training gaps. These limitations hinder their ability to adapt to and implement necessary changes effectively.

Question 10

Are there structural or governance barriers to accounts reform that need to be addressed?

- Yes
- No

Please explain your answer

There is fragmented oversight in the current system, as local authorities are subject to multiple regulatory bodies without a single authoritative entity. This has resulted in inconsistent guidance and misaligned priorities. While it is important to maintain a clear separation between the audit appointer and the body setting the regulatory framework, the current system is overly complex, with detailed and prescriptive reporting requirements. These add to the burden on local authorities by mandating disclosures that often lack significant value and result in duplication of information. Ambiguity in roles and responsibilities within the existing governance framework has further reduced accountability for driving and overseeing reforms. Additionally, there is a lack of understanding of the challenges faced by local authorities and audit firms, including resource constraints due to insufficient funding, staff shortages, and expertise gaps. These factors impede the ability to implement necessary reforms effectively.

The sheer volume of disclosures required under the current system contributes to lengthy and convoluted accounts, underscoring the need for simplification and prioritisation of reporting requirement

Question 11

Should any action to accounts reform be prioritised ahead of the establishment of the LAO?

- Yes
- No

Please explain your answer

Before the establishment of the Local Audit Office (LAO), several priorities could lay the groundwork for effective governance. Firstly, simplifying reporting requirements by streamlining disclosures would reduce unnecessary complexity and duplication, enabling local authorities to produce clearer and more concise statements of accounts. Secondly, fostering a clear consensus on codes of practice among local authorities, auditors, and regulatory bodies is essential to avoid delays and ensure smoother implementation of reforms. Addressing resource constraints is another critical priority; increasing funding, providing targeted training, and recruiting skilled staff would help strengthen resilience and capacity within both local authorities and audit firms. Additionally, clarifying the roles and responsibilities of all stakeholders involved in the accounts process would improve accountability and reduce ambiguity. Lastly, establishing an interim oversight mechanism would ensure progress is maintained, key tasks are completed, and momentum for these reforms is sustained during the transition period.

Question 12

Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

- Yes
- No

Please explain your answer

The current financial reporting practices contain several areas of redundancy and unnecessary complexity, which could be streamlined to improve efficiency and relevance. For example, narrative statements often duplicate information readily available in other reports, such as annual reports or provisional outturns, offering little additional value to stakeholders. Similarly, the disclosure of exit packages repeats publicly accessible data from the DELTA return, making its inclusion in accounts resource-intensive without enhancing transparency. Other disclosures, such as the Dedicated Schools Grant (DSG) note, merely replicate data from the Section 251 return to the Department for Education, adding to the burden with minimal stakeholder benefit. Pension fund disclosures are frequently overly technical, limiting their accessibility to non-specialists and reducing their decision-making value. Additionally, the preparation of group accounts can be disproportionately resource-intensive when subsidiaries have minimal financial impact. Lastly, excessive granularity in reserves reporting, when this information is already available through other reports, obscures key insights rather than enhancing transparency. By focusing on materiality, eliminating duplication, and aligning disclosures with stakeholder needs, the reporting process can become significantly more streamlined without compromising quality or usefulness.

Question 13

Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

- Yes
- No

Please explain your answer

Yes, the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended. The complexity and cost of implementing the usual accounting treatment for infrastructure assets—such as roads, bridges, and other public infrastructure—pose significant challenges for local authorities. These assets often lack reliable data for accurate valuations, and the time and resources required to comply with the full reporting requirements may outweigh the benefits of the disclosures. Extending the exemption will allow local authorities to focus on more impactful financial management practices and ease the administrative burden.

The treatment of local authority infrastructure assets should be extended until a suitable solution is identified that is agreeable to all auditors, CIPFA, and the

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International Accounting Standards Board. This will ensure that any future accounting treatment is well understood, feasible, and aligned with the needs of all stakeholders.

As for the expiration of the exemption, a clear timeline should be set, with a review in 3 to 5 years. This would provide sufficient time for local authorities to address data quality issues, implement necessary reforms, and develop more robust systems for infrastructure asset accounting. The expiration date should be linked to a tangible improvement in the consistency and accuracy of data collection and valuation methods, ensuring that local authorities are prepared to meet future accounting requirements without undue strain.

Question 14a

Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

- Strongly Agree
- Agree
- **Disagree**
- Strongly Disagree

Please explain your answer

There would be too much potential for conflict of interest, and we support the role that CIPFA plays in the maintaining the code of practice for the local government.

Question 14b

Are there other options relating to responsibility of CIPFA's Code of Practice?

- Yes
- No

Please explain your answer

Response to be determined

Question 15

Should the Accounting Code be freely available if it is not transferred to the LAO?

- **Yes**
- No

Please explain your answer

The accounting code should be accessible to all those that need to understand and apply it.

4: Capacity and capability

Delays and complexity disincentivise the right skills from entering the market, leading to less timely, less effective audit. The government will work to ensure that bodies have skilled and resourced account preparers. In order to strengthen the capacity of the sector, consideration will also be given to supplementing private sector audit with public provision.

Commitments

The government commits to:

- review Key Audit Partners eligibility criteria to remove barriers to entry.
- work with the Local Government Association on targeted support for local authority finance teams, audit committees and elected members to strengthen financial governance.
- provide £15m funding to local authorities for 2024/25 to honour the final year of the previous government's commitment to £45m funding in the current spending review.
- consider new burdens associated with this vision and related legislation.

Consultation Questions

Question 16

What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?

Please explain your answer

Guidance/training for Audit committee members and elected members on the key questions to consider as part of their assessment of the accounts and audit process. An annual summary of national audit issues (e.g. infrastructure valuation) and what "good" looks like. For finance, having free mandatory training on key changes to the accounting standards.

Question 17

How should Key Audit Partners (KAP) eligibility be extended further, should some categories of local audit be signed off by suitably experienced Responsible Individuals (Ris) (and if so, which)?

Please explain your answer

We support the new pathway to the registration of KAPs through the new diploma. Allowing RIs to sign off options would increase capacity in the system provided there was assurance over the quality control over those RIs.

Question 18

Should the market include an element of public provision?

- Yes

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- No

Please explain your answer

Regardless of the decision, quality and capacity should be the main driving forces behind it. If this could be delivered through a public provision, that would be acceptable.

Question 19

If yes, should public provision be a function of the LAO?

Please explain your answer

Yes. This has worked successfully previously with the District Audit.

Question 20

What should the initial aim be in relation to proportion of public and private provision?

Please explain your answer

Assurance in respect of quality and capacity as well as controlling the cost

Question 21

Should the Secretary of State, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate proportion of public provision for the market?

- Yes
- No

Please explain your answer

Response to be determined

5: Relationships and audit regimes

Existing relationships between local bodies and their auditor need to be strengthened and their respective relationship with the LAO must be clear. The collective scrutiny of audits as part of the democratic process, such as Audit Committees, will be strengthened, and the potential for local accounts committees for strategic authority areas in England will be considered. Audit regimes will be reviewed to ensure they are fit for purpose in the short and long term.

Commitments

The government commits to:

- require twice-yearly meetings between Key Audit Partners (KAPs) and authorities' statutory officers (Head of Paid Service, Monitoring Officer

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and Section 151 Officer).

- mandate audit committees with at least one independent member and consideration at full council, where this requirement does not yet apply in the sector.
- consider new local accounts committees for strategic authority areas in England, which would interact with auditors and the new LAO.
- consider moving from an exclusively threshold-based system towards one also linked to the type of body, with reporting and audit requirements scaled to the nature, size and risk of the bodies concerned.
- review the accessibility of AGAR's format and information.

Consultation questions

Question 22

Do you think that the Chair of an audit committee should be an independent member?

- Yes
- No

Please explain your answer

We believe the audit committee should be apolitical, and there is assurance provided by the statutory officers (monitoring officer and s151 officer) that the committee has terms of reference and is constituted to ensure the role of an audit committee is effectively discharged. We support there being an independent member on the committee of subject matter expertise, but do not believe it is necessary for the independent member to be the chair.

Question 23

Do you have views on the need for a local public accounts committees or similar model, to be introduced in strategic authority areas across England?

- Yes
- No

Please explain your answer

Response to be determined

Question 24

Would such a model generate more oversight of spending public money locally?

- Yes
- No

Please explain your answer

Response to be determined

Question 25

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How would the creation of such a model impact the local audit system and the work of local auditors?

Please explain your answer

Response to be determined

Question 26

Do you agree that the MLA threshold should be increased?

- Yes
- No

Please explain your answer

If the thresholds set in 2014 were correct, as they appeared to be based on the type of authority and risks profiles within those authorities, then it stands to reason these thresholds should be uplifted with inflation. We also agree that it should a proportionate approach based on the risk profile.

Question 27

Do you agree that some local bodies should be declared exempt from the regulatory focus of an MLA? For example, should Integrated Care Boards be exempt?

- Yes
- No

Please explain your answer

No response

Question 28

Do you agree that smaller authorities' thresholds should be increased?

- Yes
- No

Please explain your answer

Same answer as 26

Question 29

Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

- Yes
- No

Please explain your answer

Same answer as 26

Question 30

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Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?

- Yes
- No

Please explain your answer

No response

6: Backlog

Significant and difficult work undertaken by finance teams and auditors to clear the backlog to date is a necessary step to reform. The government recognises that there is further work required to support the recovery process including guidance, advice and support.

Commitments

The government commits to:

- work with system partners to produce additional guidance, advice and support.
- amend secondary legislation to extend existing exemptions to include infrastructure asset values, to reduce the audit workload in the medium term.
- consider any further, temporary exemptions to ensure workload and cost is proportionate.

Consultation Questions

Question 31

What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?

Please explain your answer

Any advisory note should be issued directly to local authorities rather than relying on local authorities attempting to monitor if any updates have been issued.

An opportunity to discuss/ask questions on advisory note changes would also be welcome.

Question 32

Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?

- Yes

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- No

Please explain your answer

Until such time as there is a defined and achieved level of assurance on the deliverability of the auditing requirements, they should continue to be amended for a limited time frame after the backlog has been cleared to ensure workloads and costs are proportionate.