The Chartered Institute of
Public Finance & Accountancy

Local audit reform: a strategy for overhauling the local audit system in England

A response from the Chartered Institute of Public Finance and Accountancy

29 January 2025

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

Iain Murray	David Lyford-Tilley
Director of Public Financial Management	Head of Technical and Standards
CIPFA	CIPFA
77 Mansell Street	77 Mansell Street
London	London
E1 8AN	E1 8AN
Email: iain.murray@cipfa.org	Email: david.lyfordtilley@cipfa.org

Introduction

The Chartered Institute of Public Finance and Accountancy (CIPFA) welcomes the opportunity to respond to the Ministry of Housing, Communities and Local Government's paper *Local audit reform: a strategy for overhauling the local audit system in England*.

Detailed comments

Detailed comments on each of the questions in the consultation are below. We hope this is a helpful contribution to the government's work in this important area.

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

CIPFA agrees that the LAO should become a point of escalation for auditors with concerns. The ability to collate issues and identify common issues and themes across the sector will add considerable value to the sector and could act as part of an early warning system for both the local audit system and the sector as a whole.

While providing an escalation point to auditors should sit with the LAO, we note that in the current system there is no formal escalation point for audited bodies who may also have concerns in relation to the positions being taken by their auditor, or other aspects of auditor work. We suggest that it would also be beneficial for there to be channels of communication from audited bodies to the LAO in these cases.

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

CIPFA agrees that relevant issues identified should be shared with auditors, government departments and inspectorates.

Additionally, insofar as issues identified may be systemic and not relate purely to a specific audited body, it would be appropriate for these to be shared with audited bodies and the wider public.

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?

The current system for smaller authorities seems to be working effectively. CIPFA can see that there might be benefits in reviewing and possibly improving the way the SAAA operates and the powers they have. However, we suggest this matter not be moved forward unless clear evidence emerges from the consultation which suggests a need for change. Our view is that there is no clear case for making this change.

The proposed new Local Audit Office will be tasked with addressing a number of significant challenges from its inception. Were a decision made to transfer responsibilities which currently sit with the SAAA to the LAO this should be seen as a medium- to longer-term proposition.

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

CIPFA has no strong view as to whether the LAO should oversee a scheme for enforcement cases related to local body accounts and audits.

As noted in the consultation, the LAO and FRC would need to work closely together to ensure that schemes are administered consistently across local audit, statutory audit and accountancy enforcement and that sanctions are applied fairly to each.

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

CIPFA is encouraged that some auditors are using the powers available to them to highlight issues of concern within local authorities including the issuing of Public Interest Reports (PIRs). We note that many of these reports are not timely in nature and therefore have less impact than might be desirable. Audit is by nature a retrospective activity and PIRs add value by providing an impartial and transparent view about ‘what went wrong’ but may not be as effective in identifying current issues.

There are ways that auditors can use PIRs to highlight concerns either prior to or as actions are taken by local authorities. These include the use of soft influence such as expressing concerns to management or those charged with governance and statutory powers such as issuing an advisory notice.

Anecdotal evidence from our work with the sector suggests that auditors are more focused on the accounting implications of actions by local authorities than a consideration of what risks these might pose to the proper use of public funds. A shift in emphasis and culture is required for the value that local audit can provide in this space to be realised. We feel the LAO should be well placed to do this through by placing greater emphasis on these areas through its powers to set the Code of Audit Practice and its supervision of auditors' work.

As noted above, by acting as a single point of reference for issues raised by and in local audits the LAO can collate and communicate common themes and issues across the system and wider sector. This may also help to identify issues which have caused problems in one local authority and so prevent them from having a similar impact in others.

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?

CIPFA has no specific suggestions on how the scope of Advisory Notices might be expanded. We would note that the use of statutory powers is somewhat unique to local audit and expanding the scope of Advisory Notices without clarity about what would constitute 'high-risk' concerns might create ambiguity which may act as a disincentive to those in and considering entry to the market.

We also think that expanding auditor powers in the immediate term would result in further capacity issues for the local audit market in England and should be avoided.

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

We have answered 'no', but this depends on what is being proposed.

CIPFA would not object to the register of firms being owned by the LAO.

However, we would note that ICAEW currently carries out the registration process, and has procedures in place to manage this. The work is staffed and managed in conjunction with similar approvals in relation to statutory audit of companies and other regulated work. All of the firms registered for local audit are ones which also conduct statutory audit.

We understand that the ICAEW processes are subject to regular inspection by the FRC. Nor are we aware of any suggestion that there are delays in the registration process.

If the proposal is that the LAO should take on the task of registering audit firms, then this would require the development of the relevant capabilities. The LAO would have less scope to achieve economies of scale or to manage peaks and troughs in the workload. It would also need to establish procedures to deal with ICAEW in relation to any relevant work which remains with ICAEW.

Given this, CIPFA is minded to advise against LAO taking on the registration of audit firms unless there are other clear benefits. It could instead provide oversight of the process in the same way that the FRC currently does.

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?

CIPFA understands that the circumstances under which audit firms would request changes to the accounts on the grounds of an entry being unlawful are rare.

Against that background CIPFA has no strong view on this proposal.

CIPFA acknowledges there could be benefits to implementing this change, such as simplifying the process which can save time and associated costs, and also allowing changes to be made in a timelier manner for users of the accounts.

However, we would note that such a power would need to be exercised through an appropriate process which would determine whether changes should be made on the basis of relevant evidence provided by the audit firm and having regard to any representations or counterevidence that might be provided by the local body. This will require the LAO to operate in a judicial capacity and will present the LAO with a capacity and capability challenge, as it would require specialist capability that would only need to be exercised on rare occasions.

CIPFA considers that similar benefits may be achieved by having the LAO act as an escalation point and facilitator to this process, rather than making direct interventions and replacing the role of the courts.

9. What are the barriers to progressing accounts reform?

CIPFA and CIPFA/LASAAC have consistently explored improvements to financial reporting under the Code. Throughout this process, stakeholder feedback has suggested that many parts of the financial statements are problem areas, and most parts of the standard setting and regulatory framework have been cited as ‘barriers’ to improvement.

It is crucial to recognise that regardless of who has responsibility for setting the Accounting Code in future, whether it remains with CIPFA/LASAAC or moves to LAO or another body, these barriers will present the same challenges unless removed.

CIPFA’s view is that the key barriers to progressing accounts reform within local government include:

- **Impact of statutory overrides**. The interaction between the requirements of financial reporting requirements and the statutory requirements of local government financing system. This frequently necessitates statutory overrides which have the effect of partially disapplying accruals accounting to determine the basis for local taxation, in contrast to standards-based financial reporting which measures performance. Some long-standing statutory overrides, such as those pertaining to pensions and depreciation, are justifiable in preventing accounting adjustments from impacting the General Fund. However, others brought in for a limited period, such as those related to the Dedicated School Grant (DSG) and pooled investments (IFRS 9), may not serve a long-term beneficial purpose.
- **Application of IFRS**. One area which some see as a barrier is in relation to the application of IFRS, subject to interpretations and adaptations for the UK public sector. The use of IFRS for the public sector in the UK is a decision taken by government. CIPFA acknowledges concerns that there may be too much emphasis on following the letter of IFRS in some areas, rather than when it is beneficial and is in the best interest of the users of the accounts. However, significant departures from IFRS would mean that local authority financial reporting did not align with the wider public sector with consequences for the Whole of Government Accounts (WGA).

- **Alignment with FReM**. The need to ensure that the requirements of local authority financial reporting align with those set out by HM Treasury in the FReM. This is imperative for consolidation of all public bodies into the Whole of Government Accounts as when accounting treatment does not align this leads to modified audit opinions.
- **Implementation of significant changes**. Changes to any accounting code or statutory override must be carefully considered to avoid unintended consequences. Significant changes require substantial lead-in time due to the inherent costs associated with implementation. There is limited capacity and capability of those in the sector, both preparer and auditor, to implement changes quickly and this consideration has slowed the pace of reform.
- **Underutilisation of application guidance**. The prevailing view within the system assumes that Code changes are the only way to reform financial reporting. There needs to be a greater emphasis placed on how the Code is interpreted and applied by both preparers and auditors. As the current custodian of the Accounting Code, CIPFA is uniquely positioned to not only set standards but also actively engage with preparers, providing guidance and training to facilitate proper Code interpretation and application.
- **Limited focus on user engagement**. The financial statements are often criticised for not enabling engagement with residents on financial matters but there are many other mechanisms that local authorities could use to achieve these outcomes. Preparers could effectively engage users through the use of short-form content and social media. This approach would align well with statutory accounts based on IFRS with no overrides, complemented by a separate summary statement that incorporates funding adjustments and other relevant information.
- **Volume of disclosures**. While measures to reduce the volume of disclosures may make the accounts more streamlined and easier to read, there are risks to completeness and clarity. Furthermore, reducing disclosures may not always result in significant reductions in effort for preparers or auditors, as the information in the disclosures may be required in order that preparers and auditors can be confident of the accuracy of the figures which the disclosures explain.

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

As noted above one of the key barriers to reform is the interaction between financial reporting requirements and statutory adjustments to local authority accounts required under law. Some of the most recent examples of statutory overrides have not been designed to address the differences between accounting and legal requirements but instead have been used to address funding and financial gaps in local authorities. The ongoing use of statutory overrides for this purpose creates unnecessary complexity in local authority accounts. As noted in our response to question 11, this is an area which CIPFA's Better Reporting Group is exploring as an immediate priority.

We do not see CIPFA/LASAAC and the related CIPFA and LASAAC governance processes as an inherent barrier to reform. We do think there are ways in which these processes are not operating as effectively as they could and this has sometimes caused confusion when changes to financial reporting have been proposed. CIPFA is undertaking an external review of these processes with a view to establishing how they could be improved.

It is worth considering some of the constraints and complexity within the current governance process. Some of the arrangements reflect agreements made with the devolved administrations and MHCLG to support a UK-wide Code, and to align the overarching FRAB process which advises HMT on whether the resulting accounting is IFRS-compliant, subject to only legitimate and appropriate interpretations or adaptations for the UK public sector.

In practice this means developing non-standard (from an IFRS point of view) approaches, either due to statutory arrangements or where the private sector-focused approach in IFRS is not appropriate for specific public sector contexts. Any deviation from IFRS needs to consider Whole of Government Accounts implications and the requirement for accounts that provide a true and fair reflection of an authority's financial performance. Both the use of IFRS and the true and fair view are requirements which are set by central government and the latter is enshrined in law.

If the sector wishes to pursue significant departures from IFRS as part of its approach to accounts reform then it will either need to convince FRAB/HMT of the merits of these departures or alternatively look at what other mechanisms might be developed to mitigate the potential impact on WGA from this departure. Significant departures will also mean the potential risk that the financial reporting framework no longer provides a true and fair view.

We think any planned reforms to financial reporting will need to address these issues.

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

Yes. Work on accounts reform has started and should continue and is not predicated on the creation of the LAO. CIPFA agrees with other system partners that having a systems leader for local audit is vital. Measures to improve accounts should be progressed as quickly as possible and this should not delay the creation of the systems leader.

CIPFA is already progressing initiatives in relevant areas. As explained in our response to question 10, an independent review of CIPFA/LASAAC is being undertaken.

CIPFA convenes the Better Reporting Group (BRG), which is focused on enhancing the user experience of local authority accounts while also considering the burden on preparers and auditors. This may include proposing amendments to CIPFA/LASAAC for the Code of Practice on Local Authority Accounting for the United Kingdom (the Code), or assisting CIPFA in developing practical guidance to enhance its application.

The BRG includes volunteers from across the UK from within both local government and audit sectors. Its initial project groups will cover:

- guidance to support the introduction of indexation as per the Treasury Thematic Review (from February 2025)
- a review of statutory overrides (from Spring 2025)
- pensions reporting (from Autumn 2025).

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

CIPFA convenes the Better Reporting Group (BRG) to focus on enhancing user experiences with accounts as well as easing the burden on preparers and auditors. The BRG includes volunteers from across the UK from within both local government and audit sectors.

BRG's work programme sets out a number of priority areas where improvements can be made (please see response to Q11). Many areas have common features which result in difficulties for both preparers and auditors.

One recurring theme is that preparers and auditors use different approaches to setting materiality and these do not reconcile. A common approach and understanding of materiality would have a significant beneficial impact on all areas of the accounts and assist with preparer and auditor burden.

Another area BRG has highlighted is the preparer burden of presenting information in different formats for different audiences. There is sometimes tension between different requirements, for example between statutory accounts and Whole Government Accounts.

BRG has been established on the understanding that the current local government financial statements are overly complex for users. A common approach or standardisation of these accounts as well as simplification may benefit users, preparers and auditors.

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, the current exemption should be extended to coincide with the current backstop provisions, to expire no earlier than 1 April 2028. CIPFA feels that the work to rebuild assurance for hundreds of disclaimed accounts will take up significant resources for preparers and auditors. Adding any additional reporting requirements or trying to transact a significant change during this time would be counterproductive.

The Code currently requires infrastructure assets to be shown in the accounts at historical cost. However, numerous authorities, particularly those affected by past reorganisations, face significant gaps in their asset records. This potentially necessitates a sector-wide 'reset' of asset records to ensure complete and accurate financial reporting moving forwards, regardless of any changes to the accounting requirements.

CIPFA/LASAAC previously indicated in 2022 its desire to move to valuing infrastructure assets at depreciated replacement cost (DRC). The previous attempt to move to DRC for highway network assets (HNA) in 2016 met with many obstacles, most notably the provision of indices and materiality alongside significant preparer and auditor resource.

CIPFA proposes that work commences on a solution in collaboration with system partners, preparers and auditors that can be implemented across the sector in a proportionate and consistent manner. Implementation of any solution should be deferred until the 2028/29 accounts at the earliest, although this will be dependent on the proposed solution. By this time the hope would be that all local authority accounts in England should no longer be disclaimed as a result of backstop arrangements, the audit market will have stabilised and preparers and auditors will have the capacity to implement this significant change.

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

CIPFA is very strongly opposed to the transfer of responsibility for the Code of Practice for Local Authority Accounting to the LAO.

Most importantly, transferring responsibility will not in and of itself remove the barriers to accounts reform identified in the responses to questions 9 and 10. Without other changes, simply moving responsibilities to another body will not further the progress or pace of reform.

We are also concerned that such an arrangement would not provide sufficient separation to properly manage conflicts of interests, notwithstanding the declaration in the consultation that there would be ethical walls. Having an organisation primarily responsible for audit setting the Accounting Code is not something which generally happens internationally, or indeed in other parts of the UK public sector. There is a risk that financial reporting changes will be driven by reducing auditor burden rather than the wider needs of users and other stakeholders.

We would note that there would be issues to be addressed in relation to the LAO as an England-only body taking on a Code applicable to the whole of the UK. While the consultation indicates that MHCLG would commit to working with the devolved governments to determine the appropriate governance structures and responsibilities, the proposal would seem to override arrangements which came into place by agreement with MHCLG and the devolved administrations. It also seems to be out of scope for a consultation which has been framed as being a strategy relating to England only, on the basis that local government is a devolved matter.

CIPFA also thinks that looking at the Code of Practice on Local Authority Accounting in isolation fails to recognise that this forms one part of the much broader standards and guidance setting role that CIPFA plays in the local authority sector. As well as producing the Accounting Code, CIPFA also produces the following standards and guidance for the sector:

- Service Reporting Code Of Practice For Local Authorities (SeRCOP)
- Prudential Code
- Annual Governance Statement Guidance
- Treasury Management Code
- Role of the Chief Financial Officer
- Bulletins
- Financial Management Code
- Internal audit guidance for local authorities
- Ethical standards for CIPFA members.

We question the effectiveness of removing one element of this suite of responsibilities, particularly as it would require the LAO as a new body to recruit and retain skills and expertise which already sit in another part of the system.

The proposed new Local Audit Office will also have a very full agenda, and developing standard setting secretariat and other capability would reduce the resources available for matters which are higher priority. It would also be quite difficult to develop capability quickly – the pool of relevant standard setting expertise is quite a small one. Therefore, during the process it is likely that momentum would be lost in this area.

Against this background, CIPFA suggests that placing these responsibilities with the new LAO would be problematic and would not in itself achieve improvements in financial reporting which would benefit auditors or accounts preparers. While we recognise that improvements could be made in financial reporting, these would be better achieved through a standard setting process which was not vested in the LAO.

In the immediate term, we are not clear how moving responsibilities for setting the Code would have a significant effect on the audit backlog, nor would it particularly contribute to the safeguarding the position once the backlog has been eliminated or significantly reduced. While certain aspects of audit might become easier if changes were made to the form and basis of the accounts, the main causes of the backlog appear to be in the audit framework, preparer/auditor capacity and the expectations placed on auditors by regulators. Local authorities in the devolved administrations are preparing statements under the same Code and the same crisis has not arisen.

Finally, we have concerns that a decision to move responsibilities for setting the Code would undermine the work already underway to reform local authority accounts at a time when the pace of reform is key.

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

In line with previous comments, CIPFA considers that there is a strong case for leaving the development of the Accounting Code with CIPFA/LASAAC, supported by CIPFA/LASAAC secretariat, publication and promotion functions. The apparatus, systems, skills and expertise relevant to local authority accounting Code development are already in place. As noted in other responses, the effectiveness of CIPFA/LASAAC is subject to regular review and during 2025 will be subject to independent review, having regard to similar work done for the Financial Reporting Advisory Board (FRAB).

We would stress that in addition to internal and independent review, both CIPFA and CIPFA/LASAAC would be very happy to have input from MHCLG and indeed the devolved administration governments on how processes could be improved.

However, other options could be developed. For example, a standard setting board not unlike CIPFA/LASAAC could be supported by a freestanding organisation providing secretariat and funded jointly by MHCLG and the governments of the devolved administrations. This would require discussion and agreement by the relevant government authorities, and the staffing and apparatus is not currently in place. The establishment of such a board would likely slow the pace of change during the transition phase and would not be guaranteed any greater chance of success than CIPFA/LASAAC.

Another approach would be to base the Code on the FReM. However, there would still be a need to review the applicability of FReM material, and where appropriate to provide different interpretations or adaptations reflecting the differences between local government and central government bodies. A standard setting board and secretariat support would still be necessary to develop and consult on changes to Code requirements.

We would also note that CIPFA/LASAAC has considered whether the Code might be drafted more like the FReM. This is something which CIPFA/LASAAC has consulted upon, most recently in the 2024/25 Code consultation, and the overwhelming message from preparers supported the current approach.

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

CIPFA believes that the Code should be freely available regardless of whether the responsibility for setting it is moved to the LAO or not. The Code is currently charged for as a means of defraying the cost to CIPFA of providing secretariat and production support. CIPFA is completely open to proposals to make the Code freely available through other funding models. We would also welcome discussions with government about how our wider standard-setting responsibilities might be funded to allow all the statutory guidance we produce to be freely available.

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

In CIPFA's view, these groups can be supported as follows:

Finance teams

Successful finance teams should have the relevant knowledge and skills to produce financial information for those responsible for governance. They need to be able to provide those responsible for governance with assurance that the financial information is accurate and robust. They also need to be able to provide it in a format that is easy for elected members to understand, to allow decisions to be made.

Finance teams need to have the relevant qualifications and ongoing professional development. They also need to have clear guidance and support. This is especially important when changes are being introduced to ensure these can be implemented efficiently and assurance can be provided to elected members.

Further information can be found in the Local Government Finance Workforce Action Plan for England produced by the Local Government Association (LGA), with support from CIPFA.

One of the biggest issues facing the local authority finance profession is the continued desirability of the profession. CIPFA is deeply concerned that the prolonged period of underfunding of local authorities has resulted in underinvestment in finance teams and finance professionals. Similar issues also exist in the local audit market.

There is a growing concern that the sector will not have access to the necessary skills in the future if this underinvestment continues.

Audit committees and elected members

Effective audit committees require a membership that has relevant knowledge and skills. The inclusion of appropriately qualified and experienced independent members on the committee would bring valuable additional relevant knowledge. All committee members will require support to understand the role and responsibilities of the committee plus guidance on some of the more technical areas such as the financial statements.

To support effective governance, it is vital that all elected members are aware of the key messages from the financial statements, annual governance statement and the reports and recommendations of the local auditor. As part of their responsibility for governance, all members, not just on the audit committee, need assurance on the robustness of their finances and the adequacy and effectiveness of governance arrangements.

Providing training and guidance to members on finance, governance, audit and related topics such as risk management will improve understanding and encourage greater scrutiny and challenge at all stages of decision making as well as the execution of the audit committee role.

17. How should KAP eligibility be extended further, should some categories of local audit be signed off by suitably experienced RIs (and if so, which)?

This is an area which was reviewed in 2022 when the FRC consulted on revised guidance for RSBs on the approval of KAPs for local audit. One of the subsequent developments was the new pathway for registration of KAPs through CIPFA's knowledge-based Diploma in Local Audit. Other changes were made, which in general CIPFA supported. Ultimately it is a question of risk, and perhaps the government could decide to accept a greater (but not significantly greater) degree of risk in relation to the competence and experience requirements for KAP eligibility, balancing this against the potential risks arising from the KAP pool being too small.

In the longer term, if the LAO engages in public sector provision of local audit (as discussed in q18–19) we have hopes that the audit system would be more self-sustaining, as a pool of expertise would develop in the LAO and might be expected to transfer to and from audit firms as individual KAPs and other audit staff with relevant experience moved to and from public provision.

In the shorter term, one approach would indeed be to allow lower risk and lower value audits to be signed off by suitably experienced RIs. It might also be possible to accelerate the progress of those RIs to KAP status, subject to satisfactory completion of the audit firm's quality review procedures in relation to the relevant audits.

The government might also consider whether it can ease the position for audit firms by re-balancing the experience requirements for company statutory audit by allowing that local audit experience can, to a prescribed degree, be relevant to the skillset of the company auditor and should count towards the experience required under the Companies Act 2006.

While not directly affecting local audit KAP capability, it may improve the attractiveness of the training position for those engaged in local audit and help the firms in staffing this area.

18. Should the market include an element of public provision?

Yes.

CIPFA's view is that public provision would provide greater flexibility in allowing the market to respond to demand and ensuring proper coverage. This could cover two key elements:

1) General additional capacity in the audit market
2) Providing an auditor of last resort.

Point 2) is particularly important given that sometimes no suitable private provider can be found to take on an audit.

It is important to note that provision will not be simple or quick – there are not suitably qualified and experienced audit teams currently lying unutilised which could be employed. Local accounting and audit is a particular subject and general central government audit staff (at the NAO, for example) could not be expected to pick it up without time and proper support.

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

Yes.

CIPFA agrees that the new LAO would be the most appropriate home for this new audit capacity. Its position as the regulator of audit could be balanced against this provision. While there is some tension between these roles, appropriate distance between the teams carrying out each role could be created in the same way that internal audit quality departments and front-line auditors are separated within commercial audit firms.

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

The most immediate concern is ensuring that there is sufficient capacity between the LAO and the private sector that all audits can be covered. Therefore, CIPFA believes that the first priority should be establishing this capacity. From here additional capacity can be built up over time to allow for wider support of the market.

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?

A decision-making process to determine the appropriate proportion is required. CIPFA does not have any strong opinion on what process is most appropriate. However, the public provider will need to have sufficient market share to be able to operate both safely and sustainably.

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

CIPFA welcomes the decision to mandate audit committees in local bodies. Further clarification is required on how the model of audit committees will operate across the local government sector, for example in policing bodies which already operate a committee made up of independent members only including an independent chair.

CIPFA considers that it is possible to have independent chairs of audit committees in local government, so long as there is more than one independent member. Independent members should bring appropriate knowledge, skills, and experience to the committee.

In its guidance to the sector, Position Statement on Audit Committees in Local Authorities and Police 2022, CIPFA recommends that when there are no statutory requirements on the make-up of the audit committee, authorities should have a minimum of two independent members. Bringing in more than one independent member helps in a number of ways:

- Additional relevant expertise and knowledge.
- Continuity – some audit committees suffer from annual turnover of elected members as a result of elections and movement to other committees. More than one independent member helps to balance the churn.
- Succession planning – if independent members are to chair the committee, then building up experience as a member of the committee first would be beneficial.

In 2021 CIPFA chaired a working group on behalf of MHCLG to consider recommendation 4 in the Redmond Review concerning strengthening audit committees. The group's report emphasised the importance of appointing independent members with the appropriate knowledge and expertise. This principle is also embedded within CIPFA's Position Statement.

A small number of English councils already operate audit committees with an independent chair. In addition, all police audit committees have an independent chair. In audit and governance committees in Wales, one third of members must be lay members and the chair is a lay member. CIPFA considers that this approach has advantages:

- It helps to ensure that the committee is chaired by someone with appropriate knowledge and expertise.
- It reinforces independence and the non-political nature of much of an audit committee's work.
- It provides continuity in the chairing of the committee.

When taking this approach there are a number of factors that need to be considered. While audit committees are primarily non-executive advisory bodies, some audit committees in councils have delegated decision-making responsibilities, for example final approval of the statement of accounts. Independent members will not have voting rights under Section 13 of the Local Government and Housing Act for policy decisions. It is vital that elected representatives retain a stake in the work of the audit committee as ultimately it is full council that has the governance responsibility for the authority and the audit committee supports that.

Overall, building an effective audit committee requires the adoption of an appropriate structure, membership and terms of reference. Guidance on all these areas already exists in the Position Statement and its supporting publication. Once committees are mandated, they should operate in accordance with such guidance.

Building an effective audit committee also requires a commitment by the authority to provide its members with adequate support and facilitate the development of knowledge and skills. The committee needs to have an appropriate status so that its advice and recommendations carry weight with those in executive roles and with the body charged with governance.

CIPFA would welcome the opportunity to work with the department on future proposals for improving the capabilities and operational performance of audit committees.

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?

CIPFA considers that the effectiveness of the parliamentary Public Accounts Committee comes from its status as a committee of Parliament and its powers to scrutinise and take evidence from accounting officers. It depends extensively on the work of the National Audit Office that provides an independent evidence base for much of its inquiries.

To establish a local public accounts committee, consideration is needed on the committee's representatives, accountability and powers to access information and gather evidence.

To operate at a local level, the representatives on the committee would need access to high quality evidence on value for money at a local level. This is likely to go beyond the current reporting on value for money arrangements included in local audit reports. Local bodies will have performance data and internal audit reports may also be a source of evidence. However, internal audit's primary focus is on assurance on governance, risk and control processes to support the authority and its objectives. The discipline of performance auditing, the basis for the National Audit Office's value for money work, is not routinely carried out by internal auditors.

Consideration would also need to be given to the collaborative work of local bodies with other public sector entities, for example between local government and health bodies. Would the committee focus only on an individual authority, or on a regional basis? Would the committee's remit include collaborations with other public bodies, for example on services such as health and social care? Consideration should be given to place-based accountability.

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

In CIPFA's view the idea is worth exploring further to examine the potential for improved oversight of local public money, with the opportunity to consider value for money at strategic and sector level, not just the performance of an individual authority. But this requires careful consideration and would not be immediately straightforward to implement. Such a system would also require sufficient resourcing.

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

CIPFA's view is that access to evidence on value for money would be critical for the success of the committee. Local audit reports on value for money currently focus on whether the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The focus of auditors' work is on the adequacy and effectiveness of arrangements rather than an evaluation of achievement of value for money. To provide the committee with a base of evidence would require new performance auditing approaches.

To supplement the national performance audit evidence from local auditors, additional performance audit work could be undertaken by internal auditors at the local level.

Audit reports would continue to be reviewed by the authority in the normal way alongside the audit report on the financial statements and on governance. The experience of audit committee members locally would be a ready resource for membership of local public accounts committees.

The work of the public accounts committee would be likely to operate on a different cycle to the financial audit and also follow local concerns and priorities rather than a national approach. This would have implications for the resourcing of local auditors and require investment in capacity and capability in performance audit.

26. Do you agree that the MLA threshold should be increased?

CIPFA agrees that the MLA threshold should be increased – otherwise general inflation is likely to move local bodies into the scope of MLA without necessarily reflecting any real terms change. It will be important that these thresholds are revisited following the envisaged reorganisation of local government. It may be appropriate for the LAO to determine and maintain a list of MLAs subject to periodic review as opposed to thresholds based purely on monetary values.

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?

CIPFA agrees with the general principle that the scope of MLAs should be determined having both regard to real terms monetary values and the risk associated with different organisational contexts and structures.

As currently constituted, CIPFA agrees that Integrated Care Boards are a clear candidate for exemption from MLAs having regard to the relatively straightforward financial affairs of these bodies.

However, we would note that the roles of bodies may evolve and change; if legislation is amended, we suggest that this should allow further changes to be made on the basis of risk and monetary value criteria, without always needing further amendments to primary legislation.

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

CIPFA agrees that smaller authorities' thresholds should be increased, for the same reasons stated in response to question 26. If thresholds are not increased, general inflation is likely to move bodies into the scope without necessarily reflecting any real terms change.

Again there may be merit in determining smaller authorities by type of body as opposed to by application of a threshold.

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

CIPFA agrees that the lower audit threshold should be increased broadly in line with inflation.

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

CIPFA considers that the Annual Governance and Accountability Return (AGAR) is very limited in the information provided and does not necessarily provide transparency. There may be a case to include more specific information that is in the public interest such as related party transactions. However, including any additional information, which would be subject to audit, would increase the burden and cost to smaller authorities.

For the largest smaller authorities it could be appropriate to have enhanced governance and risk disclosures. This would support greater transparency and accountability. In addition the scope of internal audit would include a greater focus on risk and governance arrangements alongside internal controls.

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?

CIPFA envisages the need for guidance which explains the requirements that need to be met before the deadlines, and any specific financial reporting deliverables that might be helpfully explained. This was done in the most recent CIPFA bulletin. We would anticipate providing further bulletins to refresh or supplement that guidance as needed.

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?

The intention of the system partners and other components of audit and financial reporting standard setting must surely be that the workload and cost are proportionate at all times. There should in principle be no difference with the situation after the clearance of the backlog.

CIPFA acknowledges that, at a time when additional work is required to rebuild, it can be good to find ways of reducing workload in areas which are of lower risk or of less importance to the users of the accounts. This was, in effect, where CIPFA and CIPFA/LASAAC were seeking to get to with the development of short-term measures in 2024 before this initiative was suspended after the announcement of the election. While CIPFA and system partners considered a more radical approach which relaxed standards compliance in both accounts and audit, this evolved into an approach which mainly focused on aspects of the financial statements that are less relevant to decision making, in line with auditor and preparer consideration of risk and materiality.

CIPFA is mindful that the current priority for preparers and auditors understandably appears to be regaining assurance where audits have been disclaimed in prior years. Any changes to the framework for authorities and auditors should probably be focused on this aim. However, authorities will each move at a different pace, so those further ahead should not be held back by still having to disapply parts of the framework. Furthermore, given this applies to England only, any changes would likely not be appropriate UK-wide.

Finally, one thing that is probably underrated, but of the utmost importance is a framework that provides certainty for preparers and auditors. If the accounting or auditing requirements are changed on a temporary basis it can also have a disruptive impact, rather than resulting in reduced workload. Understanding new requirements and changing existing processes creates additional workload for preparers and auditors. Therefore, it is important to understand the impact and any unintended consequences when considering any changes.