

I am writing to provide our response to the consultation on the local audit strategy. We note that the findings of previous reviews have been taken into account in the current proposals, but it is unclear whether the responses from the previous consultations on these, such as the consultation on the Redmond review have been considered. We would ask that the government review previous consultation responses to ensure key concerns have been addressed in the new proposals.

Below are our key points:

### **Local Audit Office Remit**

We support the Local Audit Office (LAO) becoming a new point of escalation for auditors with concerns, as this would enhance oversight and accountability. Adequate resources and training are essential for this role. Sharing relevant issues with auditors, government departments, and inspectorates promotes transparency and collaboration, though it requires clear communication protocols.

The LAO should manage the appointment and contract of auditors for smaller bodies to ensure consistency and efficiency. A phased transition from the Smaller Authorities' Audit Appointments (SAAA) is recommended. Additionally, the LAO overseeing enforcement cases would provide a centralised approach to handling such issues.

Statutory reporting and Public Interest Reports (PIRs) can be strengthened by simplifying financial reporting requirements and enhancing the capacity of the local audit sector. Making these reports more transparent and accessible to the public will improve accountability and trust. Expanding the scope of Advisory Notices to include high-risk concerns like cyber security threats and fraud will improve governance and risk management.

If the LAO is provided with the power to require changes to the LA accounts, independent governance arrangements are vital. Chief Financial Officers will still have a professional duty to sign off the accounts which could be at odds with an LAO accounting directive at individual authority level. As an example, there was a national issue around NHS accounts a few years ago with NHS England instructing accounting officers that went against best practice and caused a number of challenges.

We support the LAO owning the register of firms qualified to conduct local audits, ensuring only competent firms are appointed. This centralisation could lead to savings and improved governance. The LAO should also have the power to require local bodies to make changes to their accounts, streamlining the process and reducing court burdens.

### **Financial reporting and accounts**

Barriers to accounts reform include resource constraints, resistance to change, and complex systems. Addressing high vacancy rates in finance roles is crucial. Structural barriers such as outdated regulations and fragmented oversight need to be addressed to facilitate effective reform.

Immediate actions to improve audit quality and transparency should be prioritised to lay the groundwork for the LAO's establishment. Engaging with stakeholders through consultations and workshops will ensure a smooth transition.

Local authority accounts are complex due to diverse services and stringent regulations. Streamlining efforts by CIPFA, such as applying materiality and simplifying accounting policies, are supported. Extending the current exemption for local authority infrastructure assets is beneficial, but a clear expiration date should be set to encourage robust asset management.

In relation to reporting and approval of the accounts, Full council would only give sufficient scrutiny to annual accounts if they focussed on information useful for decision. The current format of the accounts would unlikely receive the level of scrutiny desired by these changes, due to their complexity.

The accounts of LAs, and the audit standards, do not recognise the fundamental differences between LAs and private sector functions. This is especially important when it comes to assets, pensions and other balance sheet items where changes in the main do not hit the bottom line for councils and are reversed through statutory instruments. An enhanced risk based approach could be taken on the audit of such items, for example placing more reliance on professional valuer reports, with testing focussed on the data used to determine values and investment assets, rather than the auditors undertaking their own valuation of assets and disputing valuations of assets that have no impact on council useable reserves.

CIPFA could retain responsibility for the Code of Practice on Local Authority Accounting, with enhanced consultation processes and targeted support for local authorities as long as there are clear links with the LAO to code setting is aligned to the auditing standards set. Making the Accounting Code freely accessible promotes transparency and consistency in accounting practices.

### **Capacity and capability**

To strengthen financial governance, comprehensive training programs, enhanced resources, and regular updates on emerging risks are essential for finance teams, audit committees, and elected members. Including an element of public provision in the audit market can ensure essential services are available and enhance audit quality. A balanced approach combining public and private provisions is recommended. The role of the LAO should focus on the training and upskilling of auditors, with the opportunity to step in as auditor of last resort where required.

Public bodies should have the option to appoint an independent member as the Chair of the audit committee to enhance objectivity and governance. Introducing local public accounts committees in combined authority areas can provide additional oversight and improve accountability.

### **Audit regimes for different types of sizes of local body**

Increasing the MLA threshold and thresholds for smaller authorities can reduce administrative burdens and focus audit resources on higher-risk entities. Certain

local bodies, such as Integrated Care Boards, could be exempt from the regulatory focus of an MLA if subject to other robust frameworks.

The widening of the scope of the LAO, such as the procurement of small body auditors, should only be considered once the LAO is established, the audit market has stabilised, and the backlog of accounts has been cleared.

### **Local audit backlog**

Clear timelines, training, technical support, and regular communication are essential for local bodies and auditors to meet statutory deadlines. Temporarily amending financial reporting and auditing requirements after clearing the backlog can ensure workload and cost are proportionate.