

Local Audit Framework

Technical Consultation

Response from the Chartered Institute of Public Finance and
Accountancy

September 2021

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

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Introduction

CIPFA is pleased to respond to this consultation, which sets out the technical detail for proposed changes to the local audit framework. Local audit offers a critical test and vital source of assurance for the systems of local democracy and public accountability. Auditors provide an independent professional opinion on the financial statements of organisations that are responsible for spending billions in public money, in addition to providing assurance around the arrangements these organisations have in place for achieving economy, efficiency and effectiveness in their use of resources.

Although CIPFA supported the original Redmond Review recommendations for a new body, we have given our support to the new dedicated 'department' for local audit being established within the Audit Reporting and Governance Authority (ARGA) and would strongly support the objective that this team has sufficient focus on local public audit. Care will be needed to ensure that the new department has a thorough understanding of the issues relating to local audit and the public sector and that they are not lost amongst the wider audit reforms being proposed. CIPFA would be happy to support the new department with the issues that arise.

CIPFA notes some of the commentary at the Public Accounts Committee about ensuring that there is appropriate focus on the nature of local audit. CIPFA considers that there is a risk that local audit may be difficult to prioritise among ARGA's corporate audit functions. This will be particularly important when considering the substantial and numerous changes proposed for corporate audit and the fact that ARGA will be a newly established organisation (CIPFA has responded separately to the Department for Business, Energy and Industrial Strategy (BEIS) consultation [Restoring trust in audit and corporate governance: proposals on reforms](#)). CIPFA is also concerned that the membership of this department has the skills, experience and knowledge base to support the local audit framework. CIPFA welcomes the assurances made by the government at the Public Accounts Committee (PAC) session and would be happy to discuss and support mechanisms to ensure that the department within ARGA will have the appropriate focus on the local government and public sector and the issues it faces.

CIPFA is of the view that ARGA should be able to harness for the local audit market some of the benefits of the broader corporate reforms intended to improve competition. However, the current number of delays in audit opinions would appear to evidence particularly that the resource situation of audit supply is much more acute in local audit than in corporate audit. CIPFA also understands from its discussions with stakeholders that there are also more significant issues relating to the attractiveness of local audit as a career. There are also more substantial competition risks such as the concentration of the audit work within a small number of firms referred to by the government in its report¹ and subject of debate in the PAC session², which is of substantial concern.

CIPFA is of the view that this needs urgent consideration to both manage and measure such risks but also to improve the timeliness of the audits of the 2020/21 and 2021/22 financial statements. Such risks will also need to be considered in detail as a part of the forthcoming procurement process for the 2023/24 audits. CIPFA appreciates that the government is consulting with stakeholders on a number of these issues but cannot yet see a clear path forward for their resolution among the suggested reforms.

CIPFA would also note that to avoid becoming a system co-ordinator rather than a system leader, a focus will need to be had on all the recommendations raised by the Redmond Review. CIPFA notes the actions that the government has taken to counter market instability and has responded to the relevant consultations. CIPFA has welcomed the additional £15m to fund the resource consequences

¹ Local authority financial reporting and external audit; Spring Update commented 'the Redmond Review highlighted, with only three firms covering over 80% of local audit'.

² Formal meeting (oral evidence session): Timeliness of local auditor reporting on local government in England 20 May 2021.

of the new Code of Audit Practice and the Redmond Review recommendation for a standardised statement of information and cost, and has broadly supported the government's proposals for changes to the Local Audit (Appointing Person) Regulations 2015. It acknowledged the need for consultation on the fee variation process given the current operating conditions in the local audit market.

CIPFA has also generally supported the initiatives by Public Sector Audit Appointments in June 2021 but is of the view that the procurement exercise alone will not be able to resolve issues of audit supply and quality, though it welcomes the moves towards quality proposed in the consultations.

CIPFA also welcomes as a part of the system leadership role the transfer of the new Code of Audit Practice to ARGA. CIPFA agrees with the government's proposals that the Code of Audit Practice will continue to apply to both local government and health. CIPFA would encourage this particularly with the proposals for integration of health and local government services, though it would be important to continue to consult with the health sector to assess the impact of the changes.

In its responses to the consultation on the Code of Audit Practice, CIPFA has agreed that the Code should continue to align its requirements with International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISAs), ISAs (UK) and other FRC standards and guidance that are developed through rigorous and transparent process, after due consultation with stakeholders. CIPFA recognises that these standards have been developed primarily for private sector company audits, but the requirements are not disproportionately difficult to apply to audits of public sector entities. While they require interpretation and guidance, this is provided through [Practice Note 10](#) and supplementary material in Audit Guidance Notes.

CIPFA's view has not changed. What would be of interest to the users of local authority accounts is, however, very different from the private sector's users. The focus in local government bodies is quite rightly on how much is spent on services and the financial sustainability of the council. The audit and assurance arrangements should reflect this. CIPFA would note that there may be scope for consideration of the application of these standards to the measurement of property, plant and equipment and pensions assets and liabilities³ to ensure there is proportionality in the assurance of the measurement provisions as they would apply to the users of local government bodies. This should also be able to demonstrate that the resources inherent in the assets have supported services and the locality and meet the needs of accountability and stewardship. CIPFA is of the view therefore that there should be a focus on how these standards are applied and that additional guidance can be provided in Practice Note 10 on these issues.

CIPFA would also note that there is a wider remit to local audit than its private sector counterparts. A significant element of the audit framework is the arrangements under the new Code of Audit Practice for reporting on the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources. CIPFA agrees that it will be important that this part of the framework is effective and supports the proposals for post implementation review. This part of the framework is key to demonstrating local authority performance and financial sustainability, but CIPFA would also hope that this part of the framework is both useful to local government bodies and of interest to local authority auditors in building their auditing skill set.

CIPFA considers it essential that the proposed Liaison Committee will involve appropriate representatives from all key stakeholder groups. CIPFA is pleased to be one of the representatives in the interim form of that group and will look to support the local audit market through its membership.

CIPFA notes that the technical consultation refers to working with CIPFA in various groups established by the then Ministry of Housing, Communities and Local Government (MHCLG⁴). CIPFA

³ As prescribed by the *Code of Practice on Local Authority Accounting in the United Kingdom* updated annually by a joint Board of CIPFA and LASAAC.

⁴ Note that this consultation response refers to MHCLG, but CIPFA recognises that this government department is now named the Department for Levelling Up, Housing and Communities. Any references to MHCLG can be read for the newly named department.

has also been pleased to work with the government and other stakeholders to improve local audit and accountability.

CIPFA has been particularly pleased to lead on the governance workstream focusing on issues relating to audit committees. The group has achieved a great deal of consensus in its work. It identified challenges currently experienced by local government bodies in forming effective audit committees in ensuring an effective response to local audit matters. CIPFA's existing guidance on audit committees will be developed further because of the working group's debates and in accordance with its recommendations. However, to ensure effectiveness in the sector will take ongoing support and focus by all stakeholders and local government bodies themselves.

CIPFA has also led the work on the comprehensive training offer, which can assist with issues of auditor supply, but also audit quality and capability. At the heart of the training offer has been the proposals for a top-up qualification. CIPFA is the only recognised qualifying body (RQB) for local public audit. It is the only one of the five professional accountancy bodies that includes external audit in their qualification, which has a mainly public sector focus. This specialised knowledge could be applied to either a top-up qualification itself or as a basis for modules within a separate top-up qualification.

As standard setter for local government financial reporting CIPFA already has processes in place to improve the transparency of local authority financial information but is more than happy to discuss this with relevant stakeholders and stands ready to take forward the relevant changes.

Local Audit Framework – Responses to the technical consultation

Question/ Paragraph Reference	Response
What is meant by system leadership?	
<p>Question 1: Do you agree with the proposed functions which the system leader for local audit needs to enable a joined-up response to challenges and emerging priorities across local audit? Please let us know any comments you have on the proposal.</p>	<p>Partially agree. CIPFA has strongly and consistently supported the need for a system leader in the local audit framework to end the current fragmentation. CIPFA generally agrees with government priorities for the local audit framework, ie it should:</p> <ul style="list-style-type: none"> • not be fragmented but should be transparent, easily understood by all stakeholders and be co-ordinated centrally • promote an active local audit market, and • lead to improved audit outcomes for local authorities including identifying any financial sustainability issues. <p>Therefore, it supports the functions outlined in the consultation bringing key parts of the framework together ie:</p> <ul style="list-style-type: none"> • the regulation of the local audit framework • the monitoring and review of local audit performance • the responsibility for the Code of Audit Practice • reporting on the state of audit practice. <p>However, CIPFA would note that local audit offers a critical test and vital source of assurance for the systems of local democracy and public accountability. Auditors provide an independent professional opinion on the financial statements of organisations that are responsible for spending billions in public money, in addition to providing assurance around the arrangements these organisations have in place for achieving economy, efficiency and effectiveness in their use of resources.</p> <p>The current state though of the local audit market (as recognised by the Redmond Review and various commentators since) is that it is in crisis. Recent information indicates that a significant percentage of the 2019/20 audits are still incomplete. Though relatively limited in number, the review of audit quality by the FRC in October 2020 indicates that significant improvements are required. The delays in the 2019/20 audits are likely to have an impact on 2020/21 audits.</p> <p>Audit supply is also subject to significant stress; various sources including the Public Accounts Committee (PAC) Local auditor reporting on local government in England indicate that there is reliance on a small number of firms. The PAC review (paragraphs 27 and 28) also suggest that the supply of experienced auditors and Key Audit Partners is likely to be a diminishing pool.</p>

Question/ Paragraph Reference	Response
	<p>CIPFA is of the view therefore that government must ensure that the system leader is a leader and not just a regulator. In this role it should also use the framework to focus on issues of market supply. Where necessary the leader should be able to intervene to ensure that the framework that is established going forward is able to properly focus on audit quality and the specific needs of the public sector including local government. The leader must be able to resolve issues rather than just identify and highlight them.</p>
<p>ARGA's responsibilities as system leader</p>	
<p>Question 2: Do you have any comments on the proposed functions that ARGA should have alongside its new system leader responsibilities?</p>	<p>CIPFA agrees with the comments in the technical consultation and generally understands that the NAO undertakes functions relating to local audit, including organising networks with local audit firms related to local government (and the NHS) and the operation of contracts with expert advisors to support local auditors, covering legal matters, pensions and property valuations as outlined in the consultation. CIPFA is of the view that this co-ordinating work of the NAO should also transfer to the new department to ensure and maintain a whole system public sector approach and that appropriate system leadership is applied to these functions.</p> <p>ARGA should also ensure that the framework elements concerning public rights for inspection and for local electors to make objections are properly understood and upheld.</p>
<p>Code of Audit Practice</p>	
<p>Question 3: Do you agree that the system leader should conduct a full post implementation review to assess whether changes to the Code of Audit Practice have led to more effective external audit consideration of financial resilience and value for money matters two years after its introduction, with an immediate technical review to be conducted by the NAO? Please let us know any comments you have on the proposal.</p>	<p>CIPFA agrees and considers that important improvements have been included in the current Code of Audit Practice particularly regarding value for money reporting. CIPFA concurs that there should be the two reviews of the changes to the Code to assess how well they work and have been implemented. Ideally there should be a review as soon as possible, but CIPFA understands the practical difficulties as ARGA will only be introduced in 2023, and therefore accepts that the two-stage approach ie an immediate technical review by the NAO and a full post implementation review by ARGA two years after its introduction is a pragmatic compromise.</p>
<p>Expertise and Focus</p>	
<p>Question 4: Do you agree with the proposals to ensure that ARGA has sufficient expertise and focus on local audit? Please let us know any comments you have on the proposals.</p>	<p>CIPFA strongly agrees that ARGA will need to have sufficient expertise and focus on local audit and concurs that a separate part of the new organisation, described as a new department within ARGA, will be necessary to establish and maintain the level of expertise and knowledge of local audit necessary to lead the system.</p>

Question/ Paragraph Reference	Response
	<p>While CIPFA sees the benefit of the organisation that is leading on the changes to corporate audit also leading on the changes to local audit, CIPFA is concerned that ARGA will be a new organisation dealing with the plethora of changes to corporate auditing following the BEIS review into corporate audit in its consultation Restoring trust in audit and corporate governance. The resultant reforms that are likely to take place may mean that it will be difficult to devote the time and resources necessary to have the requisite focus on local audit within the new organisation and frameworks.</p> <p>CIPFA would therefore be concerned to see that there are explicit processes and procedures in place to ensure that sufficient time and resources are devoted in the new organisation to local audit and would be happy to discuss this both with government and the FRC.</p> <p>In addition, our recent discussions relating to the comprehensive training offer have led to several stakeholders raising concerns about there being sufficient experts in the field with the requisite expertise and knowledge to understand the requirements of local authority financial reporting and auditing and the legislative framework in which they operate. CIPFA is therefore of the view that early recruitment and (where necessary) training and development of such individuals take place as soon as possible. CIPFA would be happy to discuss the level of skills and knowledge necessary with colleagues as soon as possible.</p>
Liaison Committee	
<p>Question 5: Do you agree with the proposed role and scope of the Liaison Committee? Please let us know any comments you have on the proposal.</p>	<p>CIPFA agrees with the proposal and scope of the Liaison Committee. CIPFA is pleased to sit on the interim committee under MHCLG. CIPFA would note that the points made by the technical consultation that each of the bodies in the current local audit framework “is bound by its own organisational objectives” is at risk of playing out in the Liaison Committee.</p> <p>CIPFA is of the view that the Committee is an important grouping that will be essential to co-ordinate the overall framework, advise the new department within ARGA and to act on risks and issues as they both exist and emerge. However, it is unlikely that such a committee will be able to deal with the operational issues quickly as they arise, particularly as it is proposed that the Committee will meet on a quarterly basis.</p> <p>It will also be important to acknowledge that such a wide membership with different stakeholder groups will still have the differing objectives referred to in the consultation so CIPFA is of the view that it will be necessary for the Committee to have clearly defined ‘terms of reference’ and operational structure to ensure effective decision making.</p> <p>CIPFA would be also interested in understanding how the Liaison Committee will be able to affect the current urgent issues of market supply and audit quality. It appears in the current legislative framework that the Committee will only be able to advise the key agencies on the market supply element of the framework as it</p>

Question/ Paragraph Reference	Response
	<p>would be difficult to affect changes to the procurement of audit services (which is subject of the appointed person's responsibilities and is ostensibly a commercial market currently dominated by a very small number of operators). CIPFA is very concerned that the Liaison Committee will not be able to address a major risk to audit supply – the risk of any of the major operators in the market deciding that they no longer wish to participate and the resultant effect that this will have on local audit.</p>
<p>Question 6: Do you agree that the responsibilities set out above will enable ARGAs to act as an effective system leader for local audit? Are there any other functions you think the system leader for local audit should have?</p>	<p>Partially agree. As noted in our response to question 1 above, CIPFA agrees that the system leader should be responsible for the four functions set out in the technical consultation. There needs to be an effective regulatory environment to support accountability and stewardship in local authorities, but that regulatory environment needs to be supported by appropriately resourced auditors.</p> <p>The FRC currently has an integral role as regulator of the audit profession in the UK. However, the new framework should ensure that this regulatory function provides appropriate support to the audit profession for the UK public sector and particularly for local government (in our responses to questions 13 and 14 we also consider that this needs to include the health sector). CIPFA understands why the current framework emulates the Companies Act 2006 requirements but believes that it should also ensure that there are elements of the local audit framework that reflect the reporting needs of local government and the users of local authority services and council taxpayers.</p> <p>While significant elements of the financial statements of local authorities are the same as a private sector entity as they are based on IFRS, there are significant elements that are not. There are adaptations and interpretations in the local authority accounting Code⁵ and the financial reporting and finance framework that impact on the accounts. It will be vital that local auditors understand these issues and have the appropriate knowledge base to address them.</p> <p>Additionally, there are different areas of focus and importantly different users of the financial statements. The economic decisions taken by the users of local authority accounts (service users and resource providers) are not the same as private sector entities, where there is a focus for existing and potential investors, lenders, and other creditors (the primary users) on the profits of the entity and judgements made by the entity around measurement (see more on this issue in the response to question 7).</p> <p>The functions of the audit are also wider for local audit than the private sector, which is recognised in the Code of Audit Practice, importantly, including the value for money commentary, the statutory powers to report and make interventions and the duty to hear objections from electors. CIPFA is of the view that these are important financial sustainability and resilience and other financial and performance functions of local authorities. It is vital therefore that the regulatory and monitoring of the performance elements of the framework take this into account.</p>

⁵ The Code of Practice on Local Authority Accounting in the United Kingdom, issued annually by a joint board of CIPFA and LASAAC.

Question/ Paragraph Reference	Response
	<p>CIPFA therefore agrees that the other two functions, the responsibility for the Code of Audit Practice and the reporting on the state of audit practice will be important functions of ARGA.</p> <p>CIPFA agrees that ARGA should be able to lead on these two functions but is concerned for two reasons:</p> <ol style="list-style-type: none"> 1) this does not address the urgent issues faced by the sector in terms of audit supply, and 2) it does not provide a mechanism for responding to any serious failures in the future. <p>CIPFA is also interested in how the new framework would be able to address performance across the local audit sector as a whole, for example, which body would address the thematic reviews that are currently undertaken by the National Audit Office (NAO), important recent examples being its research into commercial property investment and very recent work on local government and net zero in England. Would these functions continue to be provided by the NAO or would they be the responsibility of ARGAs?</p> <p>CIPFA considers that the NAO is the body that currently has the expertise to undertake these functions. If these functions remain with the NAO this would mean that a fuller picture of local audit performance is retained by a separate agency and that some of the fragmentation within the current system will continue to exist.</p>
<p>Statutory objectives and functions for system leader for local audit</p>	
<p>Question 7: What is your view on the proposed statutory objective for ARGAs to act as system leader for local audit? Please include any comments on the proposed wording</p>	<p>CIPFA believes there is a need for ARGAs responsibilities to the public sector to be reflected in its objectives (as noted in our response to the BEIS consultation on Restoring Trust in Audit and Corporate Governance). CIPFA therefore welcomes the proposed inclusion of an additional statutory objective with respect to ARGAs role as system leader.</p> <p>In considering the wording of the proposed statutory objective for ARGAs, CIPFA believes a reflection on the purpose of the audit of local government bodies would be beneficial. CIPFA in its responses to the development of the Code of Audit Practice has agreed to the principles relating to the characteristic features of public sector audit which were agreed by the Public Audit Forum. CIPFA is clear on the need for effective audit of local government bodies to support public accountability. For that reason, a high-quality audit of the financial statements is of critical importance. However, CIPFA believes that the required assurance extends beyond audit of the financial statements to assurance over use of resources, value for money and the viability and sustainability of the audited entity.</p> <p>Recent experience of local government bodies indicates that local audit resources are disproportionately directed towards matters such as property, plant and equipment valuation and pensions assets and liabilities (and previously going concern), often with anecdotal comments indicating that this is at the behest of the FRC. Indeed, Sir Tony Redmond raises this issue in his report at paragraph 2.3.15. These are important elements of the financial statements and there needs to be a focus on the useful information provided. CIPFA LASAAC, as</p>

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	<p>the standard setter for local government (with other relevant authorities in the public sector), has spent significant time ensuring that the best measurement bases are used to reflect local government's use of the assets including stewardship and accountability (which would not be reflected by the cost of the asset).</p> <p>CIPFA is of the view that high-quality audit is essential. This clearly needs to include audit work on large balance sheet items such as property, plant and equipment. However, at present CIPFA is concerned that because the framework is derived (largely) from those from the private sector (see commentary in the introduction), local audit reflects those priorities. This calls into question whether local audit currently provides the required level of assurance or offers value for money for the public sector.</p> <p>Again, the decisions taken here are not the same as the private sector. This leads to an impact on how assurance might be obtained on these measurements through the audit process. CIPFA is of the view that the assurance of this information needs to reflect the different impact that this useful information has on local authority accounts and particularly the operational benefits that local authorities receive from the use of these assets in supporting services and their locality. This assurance should also reflect their impact on stewardship and accountability but should be undertaken in a proportionate way.</p> <p>An approach that particularly reflects public sector circumstances is now included in the treatment of the going concern basis of accounting in Statement of Recommended Practice 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom. CIPFA has welcomed this change, which now largely accords with its own views on the treatment for local government entities that can only be created or dissolved by statute. CIPFA would encourage a similar approach to be taken for measurement of property, plant and equipment and pensions assets.</p> <p>CIPFA would encourage ARGA to address these concerns by returning to first principles and reflecting on the purpose of a local audit. It is CIPFA's view that the public would benefit from greater assurance on a local government body's use of resources, value for money viability and sustainability. CIPFA encourages ARGA to reflect on redirecting local audit resources from matters that are more pressing in the private sector to better address assurance needs that are specific to the public sector.</p> <p>With the above comments in mind, CIPFA would recommend a more active wording for ARGA's additional statutory objective that better reflects the need for ARGA to work as a system leader. CIPFA is of the view that the current wording of the proposed additional statutory objective⁶ is too passive and more indicative of a system co-ordinator rather than a system leader. Further, the expansion of the proposed objective included in paragraph 49 of the consultation ("This would include ensuring alignment of different functions within the framework and co-ordinating between different interested parties to determine and act on emerging priorities, risks and issues.") suggests ARGA's role will be that of a monitoring, co-ordinating body rather than a system leader. Given the</p>

⁶ Wording of the proposed objective: "System leader for local audit objective: to ensure the local audit system operates effectively."

Question/ Paragraph Reference	Response
	<p>current issues faced by local audit, ARGA needs to take the lead to affect change quickly and ensure the delivery of effective local audit.</p> <p>CIPFA would therefore suggest the following wording for the statutory objective:</p> <p><i>“System leader for local audit objective: to lead on the effective operation of the local audit and assurance system in the public interest (ie for service users, taxpayers and where relevant the local electorate), ensuring that the system reflects the specific needs of the public sector.”</i></p> <p>CIPFA recommends that this objective is underpinned by the following expansion:</p> <p><i>“This would include:</i></p> <ul style="list-style-type: none"> • <i>ensuring through a consultative process that areas of public interest are clearly identified, and guidance for local auditors and assurance providers aligns with the priorities of the public sector and the needs of the users of local audit financial information</i> • <i>holding the different operators within the framework to account, or where relevant reporting on their performance on local audit</i> • <i>ensuring alignment of different functions within the framework, and</i> • <i>engaging with different interested parties to determine and act on emerging priorities, risks and issues in the local audit system.”</i>
<p>Question 8: Do you agree with the proposal that ARGA will have a responsibility to give regard to the value for money considerations set out in the Local Audit and Accountability Act 2014? Please include any comments on the proposed wording.</p>	<p>Yes, CIPFA would agree with the proposal that ARGA will have a responsibility to give regard to the value for money considerations set out in the Local Audit and Accountability Act 2014. As referred to in our comments on question 7, CIPFA is of the view that work on value for money should be prioritised in the assurance system offered by the local audit framework.</p>
<p>Governance of ARGA as system leader</p>	
<p>Question 9: Do you agree that the proposals outlined above will provide an appropriate governance mechanism to ensure that the new system leader has appropriate regard to the government’s overarching policy aims without compromising its operational and regulatory independence? Please let us know any comments you have on the proposal.</p>	<p>Partially agree. CIPFA stresses that it is important for ARGA to retain its independence throughout its operations (per CIPFA’s comments on the BEIS consultation). This would include in ARGA’s working relationships with the UK government.</p> <p>CIPFA is concerned that the proposal to use remit letters to ensure ARGA has appropriate regard to the government’s overarching policy aims does create the potential for ARGA’s independence to be compromised. As set out in our response to question 7, CIPFA’s view is that ARGA needs to lead the local audit system in an active manner and that it should have its own strategic priorities established in the public interest. CIPFA would</p>

Question/ Paragraph Reference	Response
	<p>therefore suggest that, should the government adopt the use of remit letters as proposed, safeguards are put in place to ensure that ARGA has a meaningful ability to set and follow its own strategic priorities rather than the government's overarching policy aims if ARGA feels this is necessary. CIPFA considers that this could be through ARGA's duty to respond publicly to the remit letter as proposed in paragraph 55 of the consultation. CIPFA stresses that this needs to be a meaningful right of reply to the government in which ARGA can use its response to challenge the government's remit letter in the interests of effective local audit.</p>
Annual report	
<p>Question 10: Do you agree that ARGA's annual reporting should include detail both on the state of the local audit market, and ARGA's related activities, but also summarising the results of audits? Please include any views on other things you think this should include.</p>	<p>Partially agree. CIPFA concurs that a system leader and therefore ARGA should report on the state of the local audit market, and this includes the timeliness of the audits, any consistent issues arising from the audits that impact on accountability and transparency and any issues in auditor supply, so that there can be action to make changes to the framework. If necessary, this report should include consideration of any need to discuss issues such as financial sustainability and resilience (or any other key issues arising from value for money reporting). This report should also include examples of good practice.</p> <p>CIPFA would be interested to hear government's views on the issues raised by CIPFA in question 6 and whether ARGA will be responsible for the thematic reviews and studies undertaken by the NAO and if they are not to transfer to ARGA (which CIPFA suspects is the position) and how these will inform the VfM audits or issues relating to accountability and transparency without perpetuating the current fragmentation of local audit.</p>
Board membership	
<p>Question 11: Do you agree with the proposal outlined above relating to board responsibility for local audit? Please let us know any comments you have on the proposal.</p>	<p>Partially agree. CIPFA notes from paragraph 65 of the consultation that the government's intention is for BEIS to liaise with MHCLG on the criteria for ARGA board appointments to ensure that these reflect the needs of local audit.</p> <p>CIPFA supports the government in ensuring that the needs of local audit are represented and considered at board level. CIPFA is supportive of the proposal for a nominated board member to have responsibilities for local audit and suggests that it may be useful if there were more than one board member. Given the importance of this role for local audit, CIPFA recommends that MHCLG leads on the recruitment of this board member rather than simply liaising with BEIS on the relevant criteria.</p> <p>CIPFA notes paragraph 64, that the recruitment to ARGA's board should be open and fair. CIPFA would endorse this proposal; recruitment to ARGA's board must be conducted in a way that upholds ARGA's independence.</p>
Funding	

Question/ Paragraph Reference	Response
Question 12: Do you agree that ARGA's local audit functions and responsibilities should be funded directly by MHCLG rather than a statutory levy?	Yes, CIPFA agrees with this proposal for the reasons given in paragraph 69 of the consultation (ie to avoid destabilising local audit further by increasing costs for local auditors, and for the practical reason that any costs of the levy borne by local government bodies would require additional funding from MHCLG).
Health Audit	
Question 13: Do you agree that ARGA should also take on system leader responsibilities for health audit? Please let us know any comments you have on the proposal.	Yes, CIPFA agrees with this proposal. CIPFA would encourage this particularly with the proposals for integration of health and local government services though it would be important to continue to consult with the health sector to assess the impact of the changes.
Question 14: If you agree that ARGA should assume system leader responsibilities for health audit, do you think any further measures are required to ensure that there is alignment across the broader system?	<p>Paragraphs 70–72 of the consultation outline the government's proposals to extend ARGA's system leader responsibilities to health audit. Paragraph 72 indicates that the reporting and governance mechanisms proposed between ARGA and MHCLG for local audit would also apply for health audit. CIPFA expects that this extends to board representation, and that a board member will have responsibilities for health audit. In addition to liaison between MHCLG and BEIS, therefore, the Department of Health and Social Care (DHSC) should also be involved in setting board recruitment criteria.</p> <p>CIPFA is of the view that the system leader for local audit should be the system leader for health as both local government and health are currently covered by the local audit framework and are largely dealt with by the same audit practitioners. This shared expertise will be useful in terms of the development of the audit function and expertise.</p> <p>However, CIPFA is aware that this is also where one of the difficulties of audit supply arise. Traditionally, the health audits took place (in timescales) before the local government audits, allowing audit practitioners with local audit expertise to undertake these two sets of public sector audits in succession. The move to changing the timescales of local audit to similar timeframes as the health audits (which CIPFA supported in the changes to the Accounts and Audit Regulations in 2015) means that this is one of the issues that have created pressures on audit supply (which CIPFA also recognised in its consultation response). CIPFA's view remains that timely audit reporting is essential to encourage transparency and accountability, having supported the original move to 31 July. Recognising the pressure faced by the local audit sector, CIPFA supports a temporary extension to the 31 July deadline but would encourage this to be revisited periodically as resilience and capacity within the sector is rebuilt.</p>

Question/ Paragraph Reference	Response
	<p>CIPFA is also of the view that the balance between health and local government audit should be considered by MHCLG and DHSC as soon as possible to consider the impact of two such significant areas of the public sector using the same pool of audit practitioners.</p>
<p>Procurement Arrangements Appointing Person/Opt-in Arrangements</p>	
<p>Question 15: Do you agree with the government's proposals for maintaining the existing appointing person and opt-in arrangements for principal bodies but with strengthened governance across the system, including with the new system leader? Please let us know any comments you have on the proposal.</p>	<p>CIPFA had significant concerns over the way in which the Audit Commission and associated frameworks for local public audit were replaced. CIPFA's view has been that the optimal way to rectify this would be through the creation of a separate body, bringing together regulatory responsibilities around the appointment of auditors, maintaining the Code and guidance that supports high quality audit work, performance monitoring and review. However, given the current arrangements CIPFA agrees with the government's proposal to maintain the existing appointing person and opt-in arrangements.</p> <p>CIPFA has been working with MHCLG and other stakeholders to help address aspects of the ongoing fragility of local audit as referred to in paragraph 85 of the consultation. CIPFA is working on potential solutions to issues of capacity in audit firms and training of local auditors. CIPFA therefore welcomes strengthened governance and leadership across the local audit system as a mechanism through which to continue to address fragility. CIPFA acknowledges paragraph 86 of the consultation, that DHSC and NHS England support the view that existing arrangements should remain in place for health audit at this stage. Given the ongoing issues faced by the appointing person in securing contracts for local audits, CIPFA understands the view that arrangements for health audit should not be changed at this time. CIPFA recommends that these arrangements remain under review and that consideration be given to bringing health audit in scope for the appointing person if appropriate in the future.</p> <p>CIPFA is of the view, however, that the arrangements for the appointed person and opt-in are unlikely to be sufficient to resolve the current issues relating to audit supply and audit quality. CIPFA concurs with PAC that there is a crisis in audit supply and action needs to be taken to address the issues that PAC reported ie the lack of competition in the market, the lack of specialist skills, the fact that there is a diminishing pool of Key Audit Partners, the need for succession planning and the lack of local auditors generally. CIPFA acknowledges that a number of these issues exist in the corporate sector but would consider that there is an emergency in local audit. CIPFA considers that urgent consideration needs to be given to options for increasing resources within local audit, to make the market more attractive, to improve the specialist skills within the sector and to increase audit quality. CIPFA accepts that the proposals do attempt to address some of these issues but is not clear that the urgency of the situation is being given appropriate priority or that all the issues in audit supply are being tackled.</p>
<p>Enhancing the functions of local audit and the governance for responding to its findings</p>	

Question/ Paragraph Reference	Response
Existing Guidance	
Department's recommendation to authorities (paragraph 93)	CIPFA supports the government's recommendations to local authorities to review the effectiveness of their audit committee arrangements now; including whether new or additional independent member(s) are required. CIPFA also agrees with the Technical Consultation's reference to CIPFA's Position Statement and guidance publication on audit committees to support the review.
Strengthened guidance, including potential independent member requirements	
Question 16: Do you agree with the proposal for strengthened audit committee guidance? Please let us know any comments you have on the proposal.	CIPFA strongly supports the development of strengthened audit committee guidance and has committed to undertake this project immediately. CIPFA will continue to liaise with stakeholders during the development of the guidance to ensure it addresses the issues raised. As the guidance will have no statutory backing, CIPFA considers that it is essential that once the guidance is completed it receives the support of key stakeholders, including MHCLG. This will encourage its widespread adoption.
Question 17: Do you have any views on whether reliance on auditors to comment and recommend improvement in audit committee arrangements is sufficient, or do you think the Department should take further steps towards making the committee a statutory requirement?	<p>CIPFA's view is that all entities within the local government sector should be proactive in reviewing and developing their audit committee arrangements. They should ensure that best practice is followed and that the committee is effective in practice and provides an effective challenge function to management, its governance arrangements and the financial statements.</p> <p>CIPFA considers that local auditors are well placed to identify any bodies that are struggling to make improvements or do not attach sufficient weight to this aspect of their governance. It is of the view that the local audit framework should ensure that auditors are prepared to make comments and recommendations where improvement is required.</p> <p>CIPFA is of the view that mandating the audit committee would have additional benefits beyond tackling problem areas; it would:</p> <ul style="list-style-type: none"> • emphasise the importance of its role and the contribution it makes to good governance and strong public financial management • raise the profile and status of the committee • help to encourage the appointment of more experienced councillors • help to avoid a rapid turnover of committee membership • support the recruitment of independent committee members. <p>Another benefit might be that greater weight will be attached to the recommendations of the committee to the body charged with governance (ie full council, police and crime commissioners and the chief constable etc).</p>

Question/ Paragraph Reference	Response
Reporting to Full Council	
<p>Question 18: Do you agree with the proposals that auditors should be required to present an annual report to Full Council, and that the Audit Committee should also report its responses to the Auditor's report? Please let us know any comments you have on the proposal.</p>	<p>CIPFA supports this recommendation. It is essential that those charged with governance in local government are fully aware of the overall conclusion of the annual audit and that they should be made aware of any significant governance or financial resilience issues raised by the audit process.</p> <p>It is important that the local auditors can engage directly with the audit committee for a full discussion of the matters underpinning the report and that the committee should take the lead in making recommendations on how the auditor's findings should be addressed. In a local authority or fire authority (or other local government body, except police) the committee's response can be presented to the body charged with governance (eg full council) alongside the auditor's annual report and then it provides assurance on how effectively the audit committee is leading on addressing auditor concerns. In policing the PCC and chief constable already receive the report directly from the auditors.</p>
Internal Audit	
<p>The Importance of Internal Audit (paragraph 106)</p>	<p>CIPFA agrees with the comments in the consultation on the importance of internal audit and the need to ensure that local government bodies maintain an effective internal audit, taking into account public sector standards. As the standard setter for internal audit in local government, CIPFA would highlight the importance of the requirements of the Accounts and Audit Regulations 2015 regarding internal audit.</p> <p>Local authorities should ensure that their internal audit functions meet the requirements of the Public Sector Internal Audit Standards (2017) and the Local Audit Application Note (2019), and that they can demonstrate this through a compliant external quality review and quality assurance and improvement programme.</p> <p>Authorities should also ensure that that their governance arrangements for internal audit are in accordance with the CIPFA Statement on the Role of the Head of Internal Audit. Where a local government body has concerns about the adequacy of its internal audit arrangements, these should be disclosed in the body's annual governance statement.</p>
Auditor training and qualifications	
<p>Question 19: Do you have any comments on the proposals for amending Key Audit Partner guidance or addressing concerns raised about skills and training?</p>	<p>CIPFA is concerned about the issues identified during the PAC hearings on Local auditor reporting on local government in England that there is a diminishing supply of Key Audit Partners and that this may lead to both current and future problems in audit supply. However, CIPFA is not wholly convinced that this is the most significant of the barriers to entry for market supply (though CIPFA is aware that some information has led to conclusions that this is an important factor).</p>

Question/ Paragraph Reference	Response
	<p>CIPFA is happy to support any initiative that will increase the number and future supply of Key Audit Partners but is clear that this should be done without reducing audit quality and that any Key Audit Partners appointed by the firms have the requisite level of expertise, experience and knowledge to be able to undertake local audit.</p> <p>CIPFA would comment that this would need to include the relevant knowledge base in terms of public sector audit, but also key skills and confidence to be able to address the quasi-judicial functions of local auditors that may have to deal with, for example the issue of public interest reports, objections from the local electorate and the new value for money reporting requirements.</p>
<p>Question 20: Are there other changes that might be needed to the Local Audit (Auditor Qualifications and Major Local Audit) Regulations 2014 alongside changes to the FRC's guidance on Key Audit Partners?</p>	<p>CIPFA does not think that there needs to be any other substantial changes to the Local Audit (Auditor Qualifications and Major Local Audit) Regulations. Instead, it is of the view that all the relevant stakeholders in the system should focus on the skills, knowledge and experiences necessary and the supply of upcoming talent to ensure that there are auditors at all levels with the requisite skills and experience to supply the local audit market.</p>
<p>Question 21: Are there other changes that we should consider that could help with improving the future pipeline of local auditor supply?</p>	<p>It is difficult to consider this option within the proposed structure where many of the current elements remain. CIPFA has led on the proposals for a comprehensive training offer that could in part deal with the levels of expertise and knowledge elements affecting the local auditor supply. It could also support new and previous market participants where these firms may not have the requisite skills and public sector technical departments to be able to support a local audit bid.</p> <p>The comprehensive training offer is intended to drive excellence in local authority financial and narrative reporting (including the audit of that information). Its objective would be to support and assist local authorities and their auditors through training and other services such as a technical advisory service and in their arrangements to ensure value for money and that public money is safeguarded. It would be a modern electronic offering (though may take the form of different media) to provide appropriate training and assistance to support the local audit market to address capacity and capability issues that it is facing (particularly the former). It is intended to support auditors and local authority finance staff to achieve excellence in terms of financial reporting and value for money arrangements and in doing so improve both audit quality and timeliness.</p> <p>At the heart of the comprehensive training offer would be the top-up qualification, which would be aimed at supporting an alternative route for experienced RIs to enter the market for local audit, including via a top-up qualification. It is suggested that this would take the form of a postgraduate diploma and could form a part of an accreditation with a higher education institution. It is proposed that this will have as its focus the needs of key audit partners and will offer a top-up qualification or accreditation that might be able to be offered to provide an appropriately qualified auditor with the training to develop the requisite skills, experience and knowledge to</p>

Question/ Paragraph Reference	Response
	<p>become a Key Audit Partner subject to the requirements of the FRC Guidance to Recognised Supervisory Bodies on the approval of Key Audit Partners for Local Audit.</p> <p>With complex changes to the capital finance system, Redmond raises the issue that auditors need prior knowledge and training on the complex technical areas and how they operate to form consistent judgements on them. CIPFA is the only recognised qualifying body (RQB) for local public audit. It is the only one of the five professional accountancy bodies that include external audit in their qualification, which has a mainly public sector focus. This specialised knowledge and could be used as a either a top-up qualification itself or to be used as a basis for modules within a separate top-up qualification.</p> <p>Other training courses could be available for specific issues or for specific knowledge-based gaps; this may be based on current and adapted training that is already offered by training providers or new gaps may be identified. One of the most significant areas is around the impacts of capital finance and statutory reporting requirements for local authority accounts (and where relevant audit). These can be the most difficult areas to work on in both audit and accounting spheres.</p> <p>A comprehensive training offer could provide additional training to support firms that might be considering re-entering the market or individuals contemplating a return to public sector audit to provide the relevant training to meet the relevant skills and knowledge gaps. Firms might benefit from training on complicated areas or areas that have nuances in the public sector. Potentially this training offer could also run shorter courses for more junior staff in other departments in firms already in the local audit market to increase the capacity of these firms and allow them to transfer staff more easily between public sector and private sector audit teams to accommodate peaks in work.</p> <p>There is a quasi-judicial function of local government auditors and that the level of expertise necessary could be supported by a comprehensive training offer. For example, this could provide training on how to deal with electors' rights to inspect and raise objections on local authority accounts and empowering auditors in making decisions in these area at the right time.</p> <p>CIPFA is of the view that the new procurement exercise should also assist with this issue particularly as there is an increased focus on quality. However, it remains difficult to foresee whether the new procurement exercise will be able to improve competition in the sector, which as has been noted by PAC, is dominated by two current suppliers and this is an issue on which we consider government should focus on in the absence of the system leader (before ARGA has been established). Even if the exercise is able to improve competition, what remains to be seen is whether this will improve the numbers of appropriately qualified auditors ie its future pipeline and improve audit quality.</p> <p>As a part of its deliberations on the Redmond Review, CIPFA has been extremely concerned about the discussions about the marketability and attractiveness of local audit as a career and to the private sector market. CIPFA is of the view that there should be an initiative led by government under the auspices of the Liaison Committee to improve the profile of local audit as a career for the future. This should focus of the benefits of local</p>

Question/ Paragraph Reference	Response
	<p>audit to the citizen and local taxpayer for transparency and accountability, the variety of work and the positive challenges faced and skills that can be acquired including a chance to contribute to public and societal accountability. CIPFA considers that the breadth and depth of local audit assurance including the value for money reporting requirements provide opportunities for local auditors to broaden their skillset. It can provide a unique insight into both policy and performance issues and should form an important part of the attractiveness of local audit work augmenting the experiences of the auditors who work in the sector.</p> <p>CIPFA is aware that a similar initiative has been discussed by local audit stakeholders but wonders whether it may be useful for government or the system leader to sponsor a programme that directly deals with the pipeline of local auditor supply. This workstream would be aligned with the comprehensive training offer and could establish a programme centre (or 'academy') for auditors specialising in local and public sector audit. This would address the issue of audit supply but would also raise the profile and attractiveness of the local audit function and profession.</p>
<p>Action to further consider the functioning of local audit for smaller bodies</p>	
<p>Question 22: Do you have any comments on the proposal to require smaller bodies to publish their budget statements and variance explanations alongside the Annual Governance and Accountability Return to aid transparency for local service users?</p>	<p>CIPFA considers that this may be a mechanism that will improve information for the users of the smaller bodies' annual governance and accountability return and in turn improve comparability provided it can be easily accommodated in the returns and that it does not make them more complex.</p>
<p>Question 23: is the current threshold of £6.5 million still right? If you think a different threshold would be more appropriate, please provide evidence to support this.</p>	<p>CIPFA is aware that the current threshold for category 2 authorities was set at £6.5m to align with the requirements of the Companies Act 2006 thresholds. Theoretically therefore it would seem appropriate to revisit the threshold for category 2 bodies under the Accounts and Audit Regulations 2015. However, we note that the consultation indicates that this would have the consequence of moving a small number of principal local authorities into the reduced reporting arrangements for these bodies. This could lead to several consequential impacts on the reporting requirements of these bodies which would need to be considered in more depth and may mean different accountability arrangements for these bodies. CIPFA would note that CIPFA LASAAC considered differential reporting in its discussion paper in 2019 and would note that this did raise several issues in relation to accountability, but it did not achieve consensus albeit the questions relating to differential reporting suffered from a low response rate. CIPFA would recommend that the consequential issues be considered before any changes to the threshold are proposed in more detail and would be happy to discuss this with government.</p>
<p>Question 24: Do you have any comments on the proposal for a requirement for smaller</p>	<p>CIPFA agrees that to ensure consistency of reporting where possible and to avoid smaller bodies moving frequently in and out of the reporting requirements for the category 2 authorities as required by the Accounts and</p>

Question/ Paragraph Reference	Response
bodies to transfer to the Category 1 authority audit regime only once the threshold has been breached for 3 years in succession?	Audit Regulation 2015 a trend for breaching such thresholds should be established and considers that a three-year period should be sufficient to identify such a trend.