

Appendix A: Table of recommendations outlining response and implementation progress

Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)

Recommendation	December 2020/May 2021 MHCLG Response	February 2022 Progress Update
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Accept; we will work with the ICAEW, CIPFA and FRC to deliver this recommendation	In progress. • The Government is currently undertaking a process of pre-market engagement to test appetite ahead of a possible procurement to fund a new technical advisory service to provide specialist training to auditors.
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	Accept	Delivered. • On 16 February 2022, new regulations designed to streamline the process for the Appointing Person to set fee scales and fee variations came in force. We are providing £15m additional funding to local bodies in 21/22 and have committed to £45m further funding over the course of the next Spending Review period.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	Part accept; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required	In progress. • The FRC is consulting on changes to its Key Audit Partner guidance, and of potentially publishing updated guidance in Spring 2022. Following consultation, it has been confirmed that changes to statute are not necessary.
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Part accept; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review	Delivered. • In addition, we intend to extend the deadline for the 21/22 accounts, before reverting to 30 September for 6 years, until the 27/28 accounting year.

<p>11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E)and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.</p>	<p>Accept</p>	<p>Delivered.</p> <ul style="list-style-type: none"> • Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021.
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Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)

Recommendation	December 2020/ May 2021 MHCLG Response	February 2022 Progress Update
<p>1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit.</p> <p>2. The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> • Public Sector Audit Appointments (PSAA); • Institute of Chartered Accountants in England and Wales (ICAEW); • FRC/ARGA; and • The Comptroller and Auditor General (C&AG) to be transferred to the OLAR. 	<p>Part accept; We accept the need for a single organisation to have responsibility for leadership of the local audit system, including oversight of the quality framework and encouraging competition in the local audit market. We do not accept that a new body needs to be created to undertake these functions, and think that these functions, as well as an overarching responsibility for system leadership and encouraging competition in the local audit market, should be undertaken by the Audit, Reporting and Governance Authority (ARGA), set to be established to replace the Financial Reporting Council. We do not accept that this body should also have responsibility for procurement and management of local audit contracts, and think that these should functions should continue to be undertaken by PSAA.</p>	<p>In Progress</p> <p>This consultation response confirms the next steps for establishing the ARGA to manage, oversee and regulate local audit, with work ongoing to ensure that the Financial Reporting Council is ready to start functioning in shadow form from the first quarter of financial year 2022-23. Statutory responsibilities will transfer to ARGA once primary legislation allows.</p>
<p>3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.</p>	<p>Part accept; we will establish this new Liaison Committee, but think that this should be chaired by ARGA as the ‘system leader’ once the new arrangements our established. DLUHC will chair this in the intervening period.</p>	<p>Delivered. The Liaison Committee has now been established with committees meeting regularly to discuss key issues affecting the Local Audit sector. DLUHC will continue to chair this important committee whilst ARGA is</p>

		operating in shadow with the intention of migrating the role fully to ARGA in due course.
7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.	Part accept; we will work with stakeholders to consider whether additional sanction powers, beyond the audit enforcement procedures that ARGA will already have, are necessary.	We are currently not minded of the case for additional sanctions powers beyond the audit enforcement procedures already available.
13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.	Accept; we have endorsed the changes to the 2020 Audit Code of Practice, and will look to ARGA to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters in due course.	In progress. This consultation response confirms the expectation of a post-implementation review, to be completed within 3 years on the new Code being implemented.
17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	Accept; DLUHC carries out a range of assurance activity, drawing on local authority data and financial metrics and soft intelligence from engagement with the sector. We have undertaken additional data collection in 2020-21 to provide government with robust data on local financial pressures in the context of the Covid-19 pandemic and has also implemented a consistent process to engage with local authorities facing financial challenges and, where appropriate, provide exceptional financial support.	Delivered.

Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)

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<p>4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> • an annual report being submitted to Full Council by the external auditor; • consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and • formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually. 	<p>Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation.</p>	<p>In progress. We consulted on proposals to deliver this recommendation as part of our technical consultation. CIPFA is due to publish new, strengthened guidance relating to the operation of audit committees, with the endorsement of other key stakeholders in April 2022. DLUHC plans to legislate to make it a statutory requirement to submit an annual report to Full Council and have an Audit Committee, with at least one independent member.</p>
<p>9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.</p>	<p>Accept; we will work with the NAO and CIPFA to deliver this recommendation.</p>	<p>In progress. • We emphasised the importance and value of internal audit within local government bodies and the importance of operating in accordance with the requirements of the Accounts and Audit Regulations 2015, as part of our summer consultation, and the NAO is considering how this might also be reinforced through auditor guidance notes.</p>
<p>12. The external auditor be required to present an Annual Audit Report to the first Full Council</p>	<p>Accept; we will work with the LGA, NAO and CIPFA to deliver this</p>	<p>In progress. • We consulted on this matter in our technical</p>

meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.	recommendation including whether changes to statute are required.	consultation. This will be reflected in updated guidance, and also amendments to regulations.
18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.	Accept; we will work with other departments and the NAO to deliver this recommendation	In progress. <ul style="list-style-type: none"> • We have had discussions with the NAO and others to start to take this forward.

Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)

Recommendation	December 2020/Many 2021 MHCLG Response	February 2022 Progress Update
19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.	Accept; we will work with CIPFA to deliver this recommendation	Delayed. We have paused the implementation of this recommendation due to ongoing capacity issues in the sector.
20. The standardised statement should be subject to external audit.	Accept; we will work with CIPFA and the NAO to deliver this recommendation	Delayed. We have paused the implementation of this recommendation due to ongoing capacity issues in the sector.
21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.	Accept; we will work with the LGA and CIPFA to deliver this recommendation	Delayed. We have paused the implementation of this recommendation due to ongoing capacity issues in the sector.
22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.	Accept; we will look to CIPFA to deliver this recommendation	In progress. • CIPFA/LASAAC has agreed a new Strategic Implementation Plan that includes delivery of this recommendation.

Action to further consider the functioning of local audit for smaller bodies (recommendations 14, 15, 16, 23)

Recommendation	December 2020/May 2021 MHCLG Response	Progress Update
<p>14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.</p>	<p>Accept; we will look to SAAA to deliver this recommendation</p>	<p>Delivered.</p> <ul style="list-style-type: none"> • In response to recommendation 14, the NAO has updated Auditor Guidance Note (AGN) 02 for 2020-21 review. Variance explanation levels on the accounting statements, currently 15%, will change to variances of 15% or £100k - whichever is the smaller - which should ensure that at higher turnover levels authorities will need to provide explanations for more of the significant variances and movements in their accounts. Auditors will then be able to ask larger authorities for more details where appropriate.
<p>15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.</p>	<p>Accept; we will look to SAAA to deliver this recommendation.</p>	<p>In progress.</p> <ul style="list-style-type: none"> • We consulted on proposals related to this, including whether the current threshold for smaller bodies remains the appropriate one and whether allowances could be made for some bodies who go over the threshold for 1 or 2 years. The government has reviewed the comments it has received and has concluded that more time is required to consider these proposals in the context of broader work underway to progress the commitments in the Levelling Up White Paper. The government will therefore provide a response to the proposals relating to smaller bodies in due course.

<p>16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.</p>	<p>Accept; we will look to SAAA to deliver this recommendation</p>	<p>Delivered. In response to recommendation 16, the NAO complied and published a guide in August 2021 “Local authority accounts - a guide to your rights”. The guide has been circulated to the auditors of smaller authorities for it to be sent to objectors to enable them to focus their objections. In addition, SAAA has committed to considering on a case-by-case basis rebating a proportion of the auditor fees in respect of vexatious objections by assessing exceptional cases where it is clear the authority is experiencing unduly high costs due to persistent and vexatious objections or where the investigation fees appear significant and/or disproportionate to the authority’s usual budget or precept.</p>
<p>23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:</p> <ul style="list-style-type: none"> • Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers; • Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and • Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements. 	<p>Accept; we will work to JPAG to deliver this recommendation</p>	<p>In progress</p> <ul style="list-style-type: none"> • We consulted on a proposal that smaller bodies to publish their budget statements and variance explanations alongside the AGAR. The government has reviewed the comments it has received and has concluded that more time is required to consider these proposals in the context of broader work underway to progress the commitments in the Levelling Up White Paper. The government will therefore provide a response to the proposals relating to smaller bodies in due course.

