

# Recommendations

The recommendations of this Review are as follows:

## External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:
  - procurement of local audit contracts;
  - producing annual reports summarising the state of local audit;
  - management of local audit contracts;
  - monitoring and review of local audit performance;
  - determining the code of local audit practice; and
  - regulating the local audit sector.
2. The current roles and responsibilities relating to local audit discharged by the:
  - 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.
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.
4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
  - 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.
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
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.
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.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.
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.

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.
12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.
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.

### **Smaller Authorities Audit Regulation**

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.
15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.
16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils. Financial Resilience of local authorities.
17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.
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.

### **Transparency of Financial Reporting**

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.
20. The standardised statement should be subject to external audit.
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.
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.
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:
  - 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.