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| REPORT TO: | GENERAL PURPOSES & AUDIT COMMITTEE 8 July 2021 |
| SUBJECT: | The Redmond Review of Local Audit |
| LEAD OFFICERS: | Asmat Hussain - Interim Executive Director of Resources and Monitoring Officer Chris Buss – Interim Director of Finance, Investment & Risk and S151 Officer |
| CABINET MEMBER: | Councillor Callton Young, Cabinet Member for Resources and Financial Governance |
| WARDS: | ALL |
| CORPORATE PRIORITY/POLICY CONTEXT: | |
| FINANCIAL IMPACT There may be increases in audit fees as a result of this review and there will be additional work required to produce standardised statements to publish with the statutory accounts. The Government is making an extra £15 million available across the sector to cover these costs, but until the specific allocations are announced the impact will not be known. There are no additional financial considerations relating to this report. | |

1. RECOMMENDATIONS

- 1.1 The Committee is asked to note the outcomes of the Redmond review.

2. EXECUTIVE SUMMARY

- 2.1 This report details the conclusions and recommendations of the Redmond review and the responses from MHCLG on behalf of the Government.

3. DETAIL

Introduction

- 3.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. Sir Tony Redmond was appointed to conduct a review to examine the effectiveness of local audit as now practised. His findings and recommendations were published in September 2020.

- 3.2 The Review highlighted the following key problems:
- 3.2.1 Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014. In particular, Sir Tony identified weaknesses in the functioning and value of local audit, the timeliness of its findings and how these are considered and managed by local authorities;
 - 3.2.2 Market fragility. Sir Tony highlighted how local audit is an unattractive market for audit firms and individual auditors to operate within. He indicated that “without prompt action... there is a significant risk that the firms currently holding local audit contracts will withdraw from the market”.
 - 3.2.3 Absence of system leadership. The introduction of the localised audit framework in the 2014 Act spread roles and responsibilities for local audit across multiple organisations. Sir Tony argues this has contributed to a lack of coherency and makes resolving the weaknesses in the system challenging.
 - 3.2.4 In addition, the Redmond Review highlighted that the statutory accounts prepared by local authorities are widely agreed to be ‘impenetrable to the public’, limiting how effectively taxpayers can judge the performance of their authority.
- 3.3 The conclusions of the review can be found at **appendix A**.
- 3.4 The recommendations of the review can be found at **appendix B**.
- 3.5 The Government gave an initial response in December 2020 and a further response in May 2021. A table of the initial responses by MHCLG on behalf of the Government and their assessment of progress to date can be found at **appendix C**.
- 3.6 In its initial response the Government addressed most of the recommendations raised by Redmond, but it said that it would consider further some of the more complex issues, particularly those relating to system leadership of local audit activity. In addition, to support the implementation of the recommendations, the Government has announced that it will provide relevant local authorities with £15 million in additional funding in 2021/22 to support affected local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors and to enable local authorities to develop standardised statements of service information and costs. Allocations will be confirmed in the New Year.

Key Changes

- 3.7 Deadline for publishing local authority accounts is moved from 31st July to 30th September for at least the next 2 years.
- 3.8 The fee structures for local external audits will be revised upwards to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- 3.9 There are currently several organisations responsible for different aspects of local external audit: Determining the Code of Local Audit Practice (National Audit Office (NAO)), regulating the local audit sector (the Financial Reporting Council (FRC)), and monitoring and review of local audit performance (the FRC and the Institute of Chartered Accountants in England and Wales (ICAEW)). These roles will be brought together under the successor to the FRC, the Audit, Reporting and Governance Authority (ARGA). The ARGA will replace the FRC as part of the Government’s reforms

of corporate auditing, governance and reporting and will become the system leader for public sector audit as well as the corporate sector.

- 3.10 The letting and managing of local external audit contracts will continue to be carried out by the Public Sector Audit Appointments Ltd (PSAA).
- 3.11 To help local authority accounts to be more understandable to residents and other stakeholders, the Government is working with CIPFA to develop the new Standardised Statements of accounts, and consideration is also being given to making further amendments to the Accounts and Audit Regulations to require the development and auditing of the new Standardised Statement. This would be published alongside the statutory accounts which themselves may be simplified following consultation.
- 3.12 Guidance is being developed which will require that:
- An annual report is submitted to Full Council by the external auditor regardless as to whether the accounts are signed off or not;
 - At least one independent member, suitably qualified, is appointed to the Audit Committee; and
 - The CEO, Monitoring Officer and Chief Financial Officer (CFO) meet with the Key Audit Partner at least annually.
 - 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.
 - Greater reliance by external audit may be placed on the work of internal audit where appropriate to do so in line with the code of practice.

4. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 4.1 There may be increases in audit fees as a result of this review and there will be additional work required to produce standardised statements to publish with the statutory accounts. The Government is making an extra £15 million available across the sector to cover these costs, but until the specific allocations are announced the impact will not be known. There are no additional financial considerations relating to this report

(Approved by: Geetha Blood, Interim Head of Finance, Place and Resources)

5. LEGAL CONSIDERATIONS

- 5.1 The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
- 5.2 Both primary and secondary legislation may be required in order to implement the recommendations of the Redmond Review in relation to financial reporting and the audit regime.
- 5.3 The Council will need to ensure it complies with any changes to the codes of practice and legislation as these arise.

(Approved by Doutimi Aseh, Interim Director of Law & Governance & Interim Deputy Monitoring Officer)

6. HUMAN RESOURCES IMPACT

- 6.1 There are no immediate human resources issues arising from this report for LBC employees or staff.

(Approved by: Gillian Bevan, Head of HR, Resources)

7. EQUALITIES, ENVIRONMENTAL AND CRIME AND DISORDER REDUCTION IMPACTS

- 7.1 There are no equalities, environmental or crime and disorder reduction implications of this report

8. DATA PROTECTION IMPLICATIONS

8.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

No.

- 8.2 There are no immediate data protection issues arising from this report.

CONTACT OFFICER: Simon Maddocks, Head of Internal Audit

BACKGROUND DOCUMENTS:

Conclusions of the Redmond Review (September 2020)

- 1 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.

Key Factors Determining the Outcomes of the Review

- 2 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:
 - providing clarity of purpose in local audit;
 - giving emphasis to performance and accountability in local audit framework;
 - maintaining and improving the stability of the local audit market;
 - reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
 - improving and strengthening the governance arrangements underpinning effective local audit;
 - developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
 - engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
 - providing transparency in financial and external audit reporting to reinforce public accountability.

Local Audit

- 3 As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. In addressing this weakness, a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively. Concerns reported about variable levels of knowledge and experience of local government finance and accounting demonstrated by auditors must also be addressed. The skills and competencies of auditors must also be paramount if the full extent of audit requirements are to be delivered satisfactorily. The current audit deadline of 31 July is viewed as unrealistic and in the light of the evidence presented by the Call for Views, there is a compelling argument to change this date to 30 September. The procurement arrangements must acknowledge these factors and it is essential that the audit performance regime offers assurance to the public that true accountability has been served.

- 4 Attention has been given to whether the existing local audit framework might be improved to achieve these objectives. The roles and responsibilities of all relevant bodies should be reviewed to respond to the concerns expressed in this report. However, the key challenge is the underlying weakness of the current arrangements where there is no coordination and regulation of local audit activity. This is a role best discharged by a single overarching body.
- 5 A single body would embrace all aspects of local audit incorporating procurement, contract management, the code of local audit practice, accountability for performance, oversight and regulation. Clarity of purpose, consistency and public accountability would be essential features of this approach and the expertise and skills of those currently providing these services would be harnessed and maintained in the new body.
- 6 The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views. In addition, transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.
- 7 The situation facing PCCs and FRAs is many ways similar to those for principal councils in that audit quality and price are in need of review. Governance here, however, is somewhat different in terms of reporting lines and public accountability as these are currently more transparent than those applying in Principal Authorities.
- 8 Parish Councils, Meetings, IDBs and other smaller authorities operate on a much smaller scale and procurement/contractor arrangements are overseen by SAAA where no serious concerns have been identified. However, there is scope here to improve public reporting of local audit outcomes and attention should be given to 'turnover' thresholds in order to ensure a proportionate level of resource is utilised in fulfilling audit requirements.
- 9 An area that has generated considerable comment is the perceived gap between the reasonable expectations of many stakeholders and what auditors are required to do relating to the financial stability and resilience of local authorities. There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability. The scope of this audit needs to be clearly defined and focused to ensure there is a balance between cost and the potential benefits of such additional audit coverage and reporting. This would represent a genuine demonstration of public accountability.
- 10 The new NAO code includes a revised narrative audit opinion and sets out three reporting criteria relating to financial sustainability, governance and improving economy, efficiency, and effectiveness. This approach, once fully established, will provide a very important statement to stakeholders regarding a local

authority's financial health. In effecting this scrutiny of financial sustainability, the auditor would also undertake an assessment of the risks identified in the CFO's annual Section 25 report of the budget. This could be further assisted by a review of the local authority's observance of CIPFA's Financial Management Code which provides a set of statements including value for money and financial resilience. To ensure that the Auditor's work is genuinely transparent and accessible to local taxpayers an Auditor's Report should be presented to the first Full Council meeting after 30 September every year, irrespective of whether the financial accounts have been certified.

Transparency of Financial Reporting

- 11 This report has highlighted the inability of the general public to understand the annual statutory accounts presented by local authorities. The technical complexity of the accounts means that service users/council taxpayers have little or no opportunity to comprehend what is being said or to challenge expenditure and income relating to a specific service and how the local authority has performed.
- 12 Three options have been explained in this report as a possible response to this problem. A review of the existing IFRS based accounts could be undertaken, but, given the requirement to observe international reporting standards, it may not yield the simplicity in presentation and terminology that is sought here. An alternative detailed in this report would entail adapting the existing narrative report produced by local authorities as an addendum to the statutory accounts where discretion would be afforded to each local authority regarding style, content and presentation. The third and final option relates to a new simplified statement of service information and costs as a means of enabling each local authority to communicate, in a standardised format, the key information relating to the budget and council tax setting compared to actual financial performance. If transparency and consistency of financial reporting are to be achieved this last option best meets these objectives although the experience developed in the production of narrative reports may be beneficial in its design.
- 13 A draft of a simplified statement is included as an annex to this report which incorporates the key features of simplicity and transparency. Observance of IFRS based accounts remains an important ingredient in ensuring proper accountability for financial performance, so the current statutory accounts should still be produced. This requirement is underpinned by a Code of Accounting Practice produced by CIPFA. Many local authorities have not purchased the most recent copy of the Accounting Code. Consideration should be given to this being freely available, given its importance in the construction of statutory accounts.

Recommendations of the Redmond Review (September 2020)

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.

Table of recommendations outlining our response and our progress implementing them

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

| Recommendation | December MHCLG Response | Progress update |
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| 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 | <p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the ICAEW, CIPFA and FRC, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess. |
| 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 | <p>In progress.</p> <ul style="list-style-type: none"> • We are currently consulting on proposals to make amendments to The Local Audit (Appointing Person) Regulations 2015 that will, subject to stakeholders' views, provide Public Sector Audit Appointments Ltd (PSAA) (the bulk audit services procurement body) with more flexibility to agree fees that more closely match the actual costs of audit. • We are providing £15 million to principal bodies, both to help support affected bodies to meet the anticipated increase in audit fee costs in 21/22 and to support with new burdens relating to implementing Redmond's recommendations. We are currently seeking views via public consultation on the methodology for distributing this funding in the fairest way and our intention is to confirm individual allocations as soon as possible after the consultation closes on 18 May. • We have reconfirmed PSAA Ltd as the appointing body ahead of the next procurement, and will work closely with them, as well as other stakeholders, to ensure alignment in objectives between the procurement and the wider local audit system. |

| Recommendation | December MHCLG Response | Progress update |
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| 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 | <p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the ICAEW and FRC, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess. • This includes reviewing guidance relating to the entry criteria for key audit partners (KAPs). |
| 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 | <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. • At the end of this period we will review whether there is a continued need to have an extended deadline. |
| 11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSE/I and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work. | Accept | <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. • At the end of this period we will review whether there is a continued need to have an extended deadline. |

Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)

| Recommendation | December MHCLG Response | Progress update |
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| <p>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:</p> <ul style="list-style-type: none"> • 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; | <p>We are considering these recommendations further and will make a full response by spring 2021</p> | <p>Part accept;</p> <ul style="list-style-type: none"> • 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 accept that this requires a single body to have responsibility for: <ul style="list-style-type: none"> o Producing annual reports summarising the |

| Recommendation | December MHCLG Response | Progress update |
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| <ul style="list-style-type: none"> • determining the code of local audit practice; and • regulating the local audit sector. <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>state of local audit;</p> <ul style="list-style-type: none"> o Monitoring and review of local audit performance; o Determining the code of local audit practice; and o Regulating the local audit sector. <ul style="list-style-type: none"> • 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. • We will work with stakeholders to refine these proposals ahead of a public consultation before summer recess. |
| <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>We are considering these recommendations further and will make a full response by spring 2021</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. MHCLG will chair this in the intervening period.</p> |
| <p>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.</p> | <p>We are considering these recommendations further and will make a full response by spring 2021</p> | <p>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.</p> |
| <p>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</p> | <p>We are considering these recommendations further and will make a full response by spring 2021</p> | <p>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</p> |

| Recommendation | December MHCLG Response | Progress update |
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| financial resilience and value for money matters. | We are considering these recommendations further and will make a full response by spring 2021 | consideration of financial resilience and value for money matters in due course. Accept; MHCLG carries out a range of assurance activity, drawing on local authority data and financial metrics and soft intelligence from engagement with the sector. The Department has 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. |

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

| Recommendation | December MHCLG Response | Progress update |
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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. | Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation | <p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess. • This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms. |
| <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> | Accept; we will work with the NAO and CIPFA to deliver this recommendation | <p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we |

Recommendation**December MHCLG Response****Progress update**

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.

Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation, including whether changes to statute are required

will provide an update ahead of summer recess.

- This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

In progress.

- We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

In progress.

- We committed to working with stakeholders, including the LGA, NAO and CIPFA, to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

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

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

| Recommendation | December MHCLG Response | Progress update |
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| <p>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.</p> | <p>Accept; we will work with CIPFA to deliver this recommendation</p> | <p>In progress.</p> <ul style="list-style-type: none"> • We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers. |
| <p>20. The standardised statement should be subject to external audit.</p> | <p>Accept; we will work with CIPFA and the NAO to deliver this recommendation</p> | <p>In progress.</p> <ul style="list-style-type: none"> • We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers. |
| <p>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.</p> | <p>Accept; we will work with the LGA and CIPFA to deliver this recommendation</p> | <p>In progress.</p> <ul style="list-style-type: none"> • We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers. |
| <p>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.</p> | <p>Accept; we will look to CIPFA to deliver this recommendation</p> | <p>In progress.</p> <ul style="list-style-type: none"> • 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 MHCLG Response | Progress update |
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| <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</p> | <p>Accept; we will look to SAAA to deliver this recommendation</p> | <p>In progress</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including SAAA and JPAG, to deliver these |

Recommendation

December MHCLG Response

Progress update

Smaller Authorities is proportionate to the nature and size of such organisations.

recommendations. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.

In progress

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Accept; we will look to SAAA to deliver this recommendation

• We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.

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.

Accept; we will work to JPAG to deliver this recommendation

In progress

• We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.

- This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.