

MHCLG Consultation – Local Audit Strategy

KCC draft responses to the Local Audit Strategy consultation paper, due on 29 January 2025. There is a G&A committee on 23 January 2025.

- 1. Do you agree the LAO should become a new point of escalation for auditors with concerns?**

The LAO would become a stronger point of escalation for auditors with concerns. Centralising this could help improve coordination and monitoring / comparison across local government and ensuring key stakeholders are kept informed.

- 2. Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?**

Yes, sharing relevant issues can enhance transparency. It would be important to make clear what issues warrant this escalation as there may be areas which can be managed at a local level.

- 3. Should the LAO also take on the appointment and contract management of auditors for smaller bodies in the longer term? If so, when should responsibilities transfer from SAAA?**

This question is not directly relevant for KCC, but we would support such an approach. We have no strong view on the timing of any transfers.

- 4. Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?**

Yes, on the understanding from the document that enforcement is a last resort, having a single body oversee enforcement could ensure uniformity and fairness in handling cases.

- 5. How could statutory reporting and Public Interest Reports be further strengthened to improve effectiveness?**

By setting clear guidelines, ensuring timely publication, and increasing accessibility to the public.

- 6. Should the scope of Advisory Notices be expanded beyond unlawful expenditure, or actions likely to cause a loss or deficiency, as defined by the Local Audit and Accountability Act, to include other high-risk concerns?**

Expanding the scope could help address a broader range of risks and improve overall governance, however the relevance for the public needs to be considered. Any expansion of the scope would require clearly defined, transparent criteria.

- 7. Should the LAO own the register of firms qualified to conduct local audits?**

Yes, centralising the register can improve oversight and ensure that only qualified firms are conducting audits.

- 8. Should the LAO hold the power to require local bodies to make changes to their accounts, so that auditors could apply to the LAO for a change to be directed instead of needing to apply to the courts?**

No, application to the courts should continue.

- 9. What are the barriers to progressing accounts reform?**

Barriers may include resistance to change, lack of resources, and the complexity of existing regulations. The Devolution White Paper could be a significant change in the landscape of local government, and it will be challenging to implement these changes alongside the scale and proposed speed of structural change.

10. Are there structural or governance barriers to accounts reform that need to be addressed?

No

11. Should any action to accounts reform be prioritized ahead of the establishment of the LAO?

Yes, foundational reforms that simplify processes and improve transparency should be prioritized.

12. Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

Beyond the main statements, some of the disclosure notes could be considered as not adding value for the public, particularly those that are very technical and provide little relevance to the local taxpayer e.g. IFRS13. A review of the disclosures required could help streamline the accounts document (for 2022/23 this was a near 200 page document for Kent County Council) and potentially help with the volume of audit work.

13. Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

Yes. The current exemption should be made permanent as the benefits of implementing a long-term solution for the valuation and reporting of Infrastructure assets do not justify the costs of implementation. If not permanent, the exemption should be extended for as long as possible to allow CIPFA time to review the long-term solution and provide sufficient guidance and rates for the calculations. As a minimum, the current exemption should be extended until 27-28.

14. Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

We're not sure why this is necessary. However, consistent interpretation of the standards/code across all auditing firms is needed to reduce the risk of late challenges due to differences in opinion.

15. Should the Accounting Code be freely available if it is not transferred to the LAO?

Yes, however there needs to be adequate funding for whoever is responsible to ensure the updates to the Code are made in a timely manner and guidance, particularly for any new accounting policies or standards is published in full.

16. What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?

External training for elected members could aid understanding of the national context compared with local issues.

Networking groups for specific changes to accounts would be beneficial e.g. IFRS16 implementation.

Finance teams receive updates on regulatory changes, however the centralisation of this may allow support to come from one, or fewer sources.

17. How should KAP eligibility be extended further, should some categories of local audit be signed off by suitably experienced RIs (and if so, which)?

Any changes to KAP eligibility cannot have a detrimental impact on the quality and experience of KAPs, as that will have a negative impact on those organisations being audited.

Extending eligibility to experienced Responsible Individuals (RIs) for less complex audits could increase capacity. This needs to be considered alongside the Devolution White Paper.

18. Should the market include an element of public provision?

The wholesale privatisation of the public audit has been an unmitigated disaster and steps need to be put in place to ensure that the situation, whereby this was implemented on a Ministerial whim, can never be repeated. A mixed economy that ensures coverage where private sector capacity is insufficient and also provides a benchmark for cost and quality, would be welcome. It is acknowledged that recruitment and retention (for both public and private sector) will be an issue to be addressed here.

19. If yes, should public provision be a function of the LAO?

This Council's preference would be for public provision of audit services to sit outside of the LAO, so that conflicts of interest are avoided.

20. What should the initial aim be in relation to proportion of public and private provision?

We have no fixed view on what the relative proportions of public and private provision need to be. The more important thing is that there is sufficient coverage, and it is of a high quality at a reasonable cost.

21. Should the Secretary of State, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate proportion of public provision for the market?

See response to Q20 above.

22. Do you think that the Chair of an audit committee should be an independent member?

No, the primary focus should be on the Chair having financial and audit expertise rather than their independence. A chair with strong financial acumen/background and/or audit experience is well placed to oversee such a committee. A Chair with a good understanding of the authority's operations and history is able to provide valuable insight and these skills should be considered more valuable than political viewpoint. Regardless of this, the makeup of the committee should ensure transparency and integrity, reducing the need for an independent chair to be a requirement to rebuild confidence and value for money oversight.

23. Do you have views on the need for a local public accounts committees or similar model, to be introduced in strategic authority areas across England?

Kent is not currently a strategic authority area, but we would assume that local public accounts committees would be needed in the same way as current audit committees are well established to ensure accountability.

24. Would such a model generate more oversight of spending public money locally?

It would provide a focus but not clear that it would generate more oversight than current arrangements.

25. How would the creation of such a model impact the local audit system and the work of local auditors?

26. Do you agree that the MLA threshold should be increased?

Major Local Audits (MLAs) are defined as local public bodies with total income or expenditure of at least £500m, or local government pension funds with gross assets over £1 billion or more than 20,000 members.

The thresholds have not been changed since inception in 2014, so a review of thresholds with a potential to increase them sounds appropriate. Increasing the threshold can reduce the burden on smaller bodies and focus resources on higher-risk audits. Conversely, reducing the number of authorities being audited appears to be contrary to the aim in the consultation paper of improving confidence in public spending.

27. Do you agree that some local bodies should be declared exempt from the regulatory focus of an MLA? For example, should Integrated Care Boards be exempt?

The paper does not explain why ICBs would become exempt. ICBs are complex and NHS/health spending is in the public interest. More broadly, exemptions could be considered for bodies with lower risk profiles.

28. Do you agree that smaller authorities' thresholds should be increased?

Not directly relevant for KCC, but yes

29. Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

Yes, adjusting for inflation can ensure the threshold remains relevant and is flexed appropriately.

30. Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?

Not relevant for KCC.

31. What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?

Clear timelines, additional resources for peak periods, expertise in areas being audited, and ongoing training can help meet deadlines.