



Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	Government response to Local Audit Framework: Technical Consultation
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Report has been considered by	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the Government response to the recent Local Audit Framework: Technical Consultation.

1.0 Purpose

- 1.1 This report has been prepared to share a summary of the government's response on the recent consultation, Local Audit Framework: Technical Consultation, with members of the Committee.

2.0 Background

- 2.1 On the 31 May 2022 the Department for Levelling Up, Housing and Communities (DLUHC) shared its consultation outcome on its Local Audit Framework: Technical Consultation.
- 2.2 This was in response to Sir Tony Redmond's independent review into the effectiveness of external audit and the transparency of financial reporting in local authorities. This included strengthening the guidance on audit committees, through the endorsement of CIPFA's position statement as published at the end of April 2022.

3.0 Government Response

- 3.1 The independent audit of a local authority's statutory accounts and arrangements for achieving value for money is fundamental to sustaining public confidence in systems of local democracy.
- 3.2 Local audit enables taxpayers, and local bodies themselves, to have the confidence that financial accounts are true and fair and that the authority has been acting with propriety and has arrangements in place to secure value for money through the economic, efficient and effective use of its resources.
- 3.3 Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting reported in September 2020 that there was a lack of coherence and join up across the current local audit framework, as none of the organisations in the system "had a statutory responsibility, either to act as a systems leader or to make sure that the framework operates in a joined-up and coherent manner", which was contributing to wider issues including audit delays and market instability.
- 3.4 Local Audit Framework: technical consultation (July 2021) set out the government's intention to establish the Audit Reporting and Governance Authority (ARGA), which will be established to replace the Financial Reporting Council (FRC), as the new system leader for local audit. It also set out proposals to implement other recommendations from the Redmond Review: to strengthen audit committees and improve capacity and capability.
- 3.5 The consultation sought views on how these arrangements would work and received responses from a range of local bodies, audit firms, partner organisations, and other stakeholders.
- 3.6 The Government's response to the consultation sets out how it plans to act in the light of comments received, confirming its intention to establish ARGA as the system leader for local audit and for shadow arrangements to be established at the FRC ahead of that.
- 3.7 The Government's response also confirms that when parliamentary time allows, it plans to make audit committees compulsory for all councils, with at least one independent member appointed to each audit committee.

- 3.8 The consultation set out the government’s intention to act as interim system leader for local audit before new system leader arrangements were established. This has included the establishment of the new Liaison Committee. This forum has enabled engagement from across the local audit system on how to balance different priorities and objectives including a primary focus on the development of measures to address ongoing audit delays and to support the fragile audit market.
- 3.9 Through this work, a cross-sector package of additional measures was agreed by government and other key stakeholders to support improved timeliness and the wider local audit market. This was published in December 2021: Measures to improve local audit delays. In addition, Public Sector Audit Appointments Ltd (PSAA) has continued to progress its procurement strategy for the next round of local audit contracts.
- 3.10 The government is also continuing wider work to prepare for the establishment of ARGA, including the publication of the government response to the White Paper Restoring trust in audit and corporate governance.
- 3.11 The Financial Reporting Council (FRC) has recently confirmed the appointment of its first director of local audit who will lead a new dedicated local audit unit which will be integral to shaping the FRC’s new system leadership role and working with wider partners.
- 3.12 As the new shadow unit is established and builds capacity, the FRC will start to take on a greater system leadership role. This will include a period of transition during which the new FRC director of local audit will jointly chair the Liaison Committee with DLUHC as interim system leader. Once the outcome of the upcoming procurement of local audit contracts is confirmed, it will also work with the market on the development of a new workforce strategy.
- 3.13 These arrangements will be formalised through a high-level Memorandum of Understanding covering the proposed remit of the new shadow arrangements to be published later in 2022, ahead of future statutory governance arrangements.
- 3.14 The proposed arrangements for local audit are illustrated in the diagram below:

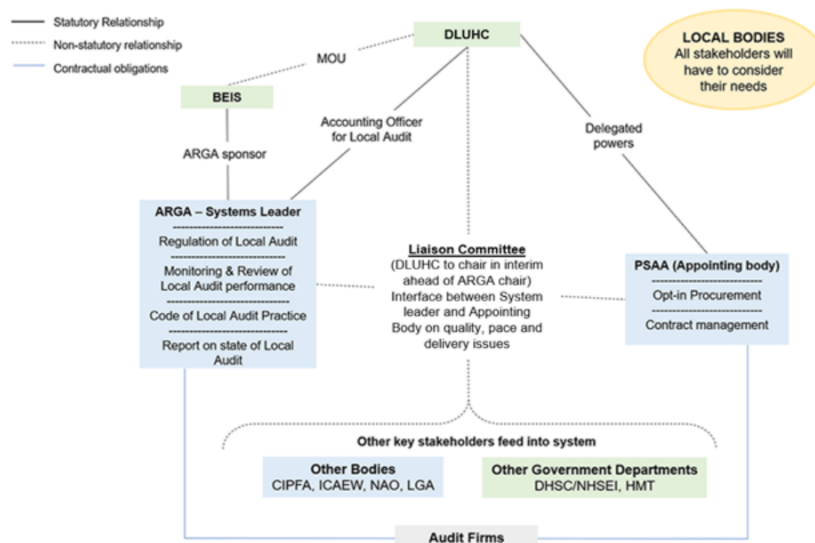


Figure 1: New Local Audit Framework

- 3.15. Further details are outlined in the Government's consultation response via the following link: [Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)

4.0 CIPFA's Position Statement 2022: Audit committees in local authorities and police

- 4.1 CIPFA's view which has been endorsed by the Government in their consultation response is that Audit Committees are a vital part of any organisation. A dedicated, effective committee is key to supporting good governance, strong financial management and effective internal and external audit of all public sector bodies.
- 4.2 CIPFA sets out the key principles of audit committees in a regularly updated position statement which sets out the principles they recommend committees operating in local government follow.
- 4.3 The full position statement is attached to this report as an Appendix for information and is summarised below:
- **Purpose** – to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and controls gives greater confidence to all those charged with governance that those arrangements are effective.
 - **Independent and effective model** - The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body
- be independent of both the executive and the scrutiny functions
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny committees and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

- **Core functions** – to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

Specific responsibilities include:

- Maintenance of governance, risk and control arrangements;
- Financial and governance reporting; and

- Establishing appropriate and effective arrangements for audit and assurance
- **Audit Committee membership** – to provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.
- **Engagement and outputs** – the audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.
- **Impact** – As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

5.0 Financial Implications

5.1 There are no direct financial implications arising from this report.

6.0 Legal Implications

6.1 There are no direct legal implications arising from this report.

7.0 Equalities Implications

7.1 Not applicable.

8.0 Inclusive Growth Implications

8.1 Not applicable.

9.0 Geographical Area of Report's Implications

9.1 Not applicable.

10.0 Other Implications

10.1 Not applicable.

11.0 Schedule of background papers

11.1 The Government's full response to the consultation can be found via the following link: [Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)