



## **Local Audit Reform**

### **SAAA's response to MHCLG's strategy for overhauling the local audit system in England**

**29 Jan 2025**

## **EXECUTIVE SUMMARY**

**Smaller Authorities' Audit Appointments (SAAA) welcomes the publication of the Ministry of Housing, Communities and Local Government's (MHCLG) Strategy for the overhauling the local audit system in England.**

SAAA has contributed to the drafting of the strategy to overhaul the local audit system and will work with partners to implement the proposals within it.

### **THE PURPOSE OF LOCAL AUDIT**

**SAAA supports the Vision Statement and core principles set out in MHCLG's strategy.** However, some elements of the purpose of local audit ('true and fair view' and value for money) do not apply to Smaller Authorities.

**SAAA looks forward to working with MHCLG and the proposed Local Audit Office (LAO) to improve the value and effectiveness of statutory reports and Public Interest Reports (PIRs) as tools to improve Smaller Authorities' accountability and governance.** SAAA believes that more use could be made of these to improve the accountability and governance of Smaller Authorities.

### **LOCAL AUDIT OFFICE REMIT**

**SAAA supports the formation of the LAO to streamline and simplify the local audit system.**

**SAAA recommends that for the time being SAAA should sit outside the LAO with the two bodies working closely together.** SAAA has successfully managed the procedures and processes of the Limited Assurance Regime since 2017. Limited Assurance Reviews are being conducted on time and to a good standard and there is no backlog. SAAA is focused on improving Limited Assurance, not dealing with a

crisis, and has a funded Improvement Plan in place so to do. Continuity of the current arrangements with SAAA and the Smaller Authorities Proper Practices Panel (SAPPP) - formerly the Joint Panel on Accountability and Governance (JPAG) - sitting outside the LAO will bring improvements; however, structural change may frustrate those improvements and bring a series of new risks; particularly given the challenges the LAO will face.

Smaller Authorities' accountability and governance is materially different to that of principal local authorities and the Smaller Authority sector has particular characteristics. Limited Assurance does well under a sector-led body, where there is close working with their representative bodies and sector-specific knowledge and experience. Smaller Authorities are an important part of local government which deserves the focus, knowledge and commitment that an experienced, sector-led, and successful body can provide on an operational level.

**SAAA fully supports the LAO setting the strategic framework for the Limited Assurance regime, but SAAA should continue to provide the operational leadership, managing processes and procedures.** The LAO should set the upper and lower limits and determine the different accounting and reporting for different-sized Smaller Authorities. However, SAAA should continue to provide the operational leadership for Limited Assurance, managing the procedures and processes; appointing auditors, undertaking quality assurance, supporting or providing training, answering queries, publishing PIRs and reporting auditors' work.

SAPPP, with support from SAAA, should continue to draft the proper practices, and the LAO should be a full member of SAPPP, alongside sector bodies, MHCLG and CIPFA, together providing a blend of the sector knowledge and the professional leadership required.

**SAAA recommends that should an eventual transfer of responsibility from SAAA to the LAO be thought desirable this should not occur until after the LAO is well established, the crisis in Full Audit has been stabilised and the effects of the pending local government reorganisation have been worked through.** The new LAO will be embarking on a significant change programme to reform local audit for Full Audit authorities, whilst at the same time overseeing the appointment of auditors to new unitary authorities are created requiring auditor appointments. Limited Assurance is working well and can continue to do so under SAAA management until the LAO has the capacity to consider Limited Assurance. Delaying consideration of any transfer of responsibility will also allow SAAA to progress and conclude its Improvement Plan and manage the transition into the next contract period commencing 1 April 2027.

## **FINANCIAL REPORTING AND ACCOUNTS**

**SAAA agrees that the purpose of local accounts is to empower users to hold authorities to account and that they should accurately indicate revenue, expenditure and financial position, indicate ability to manage funds, adhere to**

**recognised accounting requirements and assure multiple and wide-ranging stakeholders, facilitating local decision making and democracy.** SAAA has been working with partners to review Smaller Authorities 'proper practices' and the Annual Governance and Accountability Return (AGAR) to ensure that these are fit for purpose, proportionate and increasingly relevant to the account users in line with the recommendations of the Redmond Review.

SAAA has worked sector support to strengthen the governance and capacity of SAPPP. The new LAO would be a member of SAPPP alongside CIFPA, NALC, SLCC, ADA and SAAA, taking the place formerly filled by the National Audit Office (NAO). SAAA welcomes discussion with MHCLG to consider whether a restatement of SAPPP's delegated authority would be beneficial.

## **CAPACITY AND CAPABILITY**

**SAAA supports all activity to strengthen the capacity of the local government audit sector.** A robust and resilient local audit market will help to ensure that auditor firms are willing and able to undertake Limited Assurance work. SAAA will be pleased to work with the LAO and others in the sector to improve market attractiveness for all audit firms.

**SAAA supports the introduction of public provision into the market** This should ensure that no authority is left without an auditor, as can happen under the existing arrangements, and that an auditor of last resort is always available.

## **RELATIONSHIPS**

**SAAA supports the Government's ambition to improve relationships between local bodies and their auditor,** albeit that the difficulties referred to in the strategy do not generally affect Smaller Authorities.

**SAAA supports the Government's ambition to improve the transparency of audit reporting, especially internal audit reporting for Smaller Authorities.** For Smaller Authorities, SAAA recommends that the consideration of internal audits reports by the authority be made mandatory as internal audit is particularly important where a Limited Assurance regime is in place. SAAA is driving forward the improvement of internal audit for Smaller Authorities, with its partners, and is providing a unique focus on internal audit for Smaller Authorities, which is not provided by any other body.

## **AUDIT REGIMES**

**SAAA strongly supports the proposal to base the level of assurance for a local body first on the relative risk for the type of body and secondly on the level of the body's income and expenditure and agrees that there must be proportionality of accountability and oversight.** The difference between Full Audit and Limited Assurance is considerable. It is important to remove this 'cliff edge'

between the two audit regimes, responding appropriately to the activity and governance of each type of authority under review.

**SAAA welcomes the proposal for a temporary increase to the upper threshold for Smaller Authorities to £10.2m, but recommends it is raised to £15m.**

SAAA is concerned that the change to the basis of the level of assurance may not be achieved promptly given all the other pressures on MHCLG and the LAO for reform. SAAA recommends that as a safeguard the temporary upper threshold should be a higher figure of £15m. This gives greater flexibility for Internal Drainage Boards undertaking large capital schemes receiving multiyear grants (which are often overseen by the grant-making body) to remain within the Limited Assurance regime and should prevent them joining the backlog of unaudited authorities.

**SAAA recommends that authorities previously classified as Smaller Authorities that have been impacted as a consequence of crossing the upper threshold should be provided with immediate individual guidance.** These authorities need to be provided with immediate and individual advice on their audit requirements. Consideration should be given to backdating the threshold change to remove them from Full Audit so they can cease any nugatory transitional work preparing for Full Audit.

**SAAA supports the uplift of the lower threshold broadly in line with inflation allowing the smallest of authorities to remain exempt from Limited Assurance review.**

SAAA suggests that the timing of the lower threshold change should be made in consultation with SAAA to safeguard confidence in the current auditor contracts. SAAA suggests that the LAO be given the power to review this limit from time to time.

## **OTHER IMPROVEMENTS TO THE LIMITED ASSURANCE REGIME**

**Parish Meetings** - SAAA strongly recommends that parish meetings should in future only be required to opt in to the Limited Assurance regime when they exceed the lower threshold, rather than all those below that threshold being required to opt out by declaring that they are exempt as current legislation requires. This change to the regulations should be made without delay so that the unproductive task of chasing potentially exempt parish meetings for certificates of exemption can be removed from audit firm's workloads, thereby increasing the attractiveness of this market to audit firms. SAAA recommends that random checks should be made, perhaps by SAAA, to ensure those who should opt in have done so correctly.

**Making AGAR digital** - SAAA recommends that the regulations make it clear that electronic submission of forms, with appropriate safeguards, is an acceptable alternative to wet signatures. Secondly, SAAA recommends that the regulations are changed to require compulsory submission of electronic returns.

**Vexatious Objections and Objectors** - SAAA strongly recommends that an urgent system-wide review of the impact and management of vexatious objectors and

objections for both Limited Assurance and Full Audit is conducted. The cost, impact and effort of dealing with vexatious objections/objectors should not be underestimated and can be a significant disincentive for audit firms to remain in or enter the local audit market for both Full Audit and Limited Assurance. The LAO could conduct this review, with powers given to the LAO to make any amendments regulations as appropriate following the review.

In advance of the full review, one potential immediate reform would be to allow an auditor to refuse to consider an objection where the cost of the auditor investigation would be disproportionate to the income/expenditure of the authority. This is set out in more detail in our submission. This change would explicitly bring three relevant figures into the consideration of proportionality and provide a more balanced view on the good use of public funds.

**Transparency Code** - SAAA recommends that the application of the transparency codes to Smaller Authorities be reviewed to ensure that all Smaller Authorities are covered by an appropriate code.

**SAAA has set out in its full response key dates by when the reforms shown above could most beneficially best be achieved.**

**SAAA has provided a copy of the legal advice informing its proposals for the reform of regulations and legislation to aid MHCLG consideration of its proposals.**

**SAAA looks forward to working closely with MHCLG on these important and timely improvements to local audit for Smaller Authorities.**

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