

# Response ID ANON-ZNGW-2Q3T-G

Submitted to Local audit reform – a strategy for overhauling the local audit system in England  
Submitted on 2025-01-27 15:05:34

## Introduction

What is your name?

Name:  
Innes Thomson

Are you responding on behalf of an organisation?

Yes

If yes, please specify which organisation:  
ADA (Association of Drainage Authorities)

What is your position? (if applicable)

Job/role title:  
Chief Executive

## Local Audit Office remit

1 Do you agree the Local Audit Office (LAO) should become a new point of escalation for auditors with concerns?

Agree

Please explain your answer (optional):

ADA supports the concept of a Local Audit Office to help simplify the local audit system.

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

Agree

Please explain your answer (optional):

ADA would be pleased if the SAAA could become part of the monitoring processes within government for Post Implementation reviews (PIRs) issued to Smaller Authorities to help improve accountability and governance for those Smaller Authorities.

3 Should the Local Audit Office (LAO) also take on the appointment and contract management of auditors for smaller bodies in the longer term?

No

If yes, when should responsibilities transfer from Smaller Authorities Audit Appointments Ltd (SAAA)?:

If no, please explain your answer (optional):

ADA considers that SAAA have successfully managed the procedures and processes of the Limited Assurance since 2017, on time and to a good standard with no backlog. SAAA is focused on improving Limited Assurance and has a funded Improvement Plan in place so to do. Continuity of the current arrangements with SAAA and SAPPP 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.

The Smaller Authority sector has particular characteristics with a large number of diverse small public bodies with varied capacity and activity. It 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.

Whilst it is difficult to see that there is a case for Limited Assurance to be transferred into the new LAO, ADA sees the reform as an opportunity to strengthen the overall approach to the conduct of Limited Assurance working with LAO. ADA does not see the case for its functions, or those of SAPPP, being merged into the LAO either now or in the future.

ADA fully supports LAO setting the strategic framework for Limited Assurance. LAO would set the upper and lower limits and determining the different levels of accounts and reporting for different sized Smaller Authorities via Auditor Guidance Notes, as AGN02. However, ADA believes that SAAA should remain the operational lead for Limited Assurance, managing the procedures and processes; appointing auditors, undertaking quality assurance, supporting or providing training, answering queries, publishing PIRs and reporting on the work of auditors.

4 Should the Local Audit Office (LAO) oversee a scheme for enforcement cases relating to local body accounts and audit?

Yes

Please explain your answer (optional):

ADA agrees that the purpose of local auditing 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, including local decision making and democracy.

5 How could statutory reporting and Public Interest Reports (PIRs) be further strengthened to improve effectiveness?

Please explain your answer (optional):

See 2 above - ADA would be pleased if the SAAA could become part of the monitoring processes within government for Post Implementation reviews (PIRs) issued to Smaller Authorities to help improve accountability and governance for those Smaller Authorities.

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?

Not Answered

Please explain your answer (optional):

7 Should the Local Audit Office (LAO) own the register of firms qualified to conduct local audits?

Not Answered

Please explain your answer (optional):

8 Should the Local Audit Office (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?

Not Answered

Please explain your answer (optional):

## Financial reporting and accounts

9 What are the barriers to progressing accounts reform?

Please explain your answer (optional):

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

Yes

Please explain your answer (optional):

Structural barriers include audit threshold levels - see answers to Qs 11, 12, 28 & 29

11 Should any action to accounts reform be prioritised ahead of the establishment of the Local Audit Office?

Yes

Please explain your answer (optional):

ADA welcomes the proposal for a temporary increase to the upper threshold for Smaller Authorities to £10.2m, but recommends it is raised further to £15m. The change to the basis of the level of assurance may not be achieved promptly given all the other pressures on MHCLG and LAO for reform. This gives greater allowance for Internal Drainage Boards undertaking large capital schemes receiving multiyear grants to remain within the Limited Assurance Regime and so prevent them joining the backlog of unaudited authorities.

ADA recommends that previous Smaller Authorities which have been impacted by the upper threshold should be provided with immediate individual guidance on their position. These authorities need to be provided with immediate and individual advice on their audit requirements. Consideration should be given to backdating the financial changes to remove them from Full Audit so they can cease any transitional work preparing for Full Audit.

ADA supports the uplift of the lower threshold broadly in line with inflation allowing the smallest of authorities to remain exempt from Limited Assurance review. ADA suggests that the timing of the lower threshold change should be made in consultation with SAAA to safeguard confidence in the current auditor contracts. ADA would support LAO being given the power to review this limit from time to time.

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

Yes

Please explain your answer (optional):

As explained in 11 above, Internal Drainage Boards who are increasingly undertaking large capital works projects are at risk of finding themselves caught up in the full audit process. The award and governance of those capital schemes under Flood Defense Grant-in-Aid funding is itself subject to considerable scrutiny by the Environment Agency and Defra and so the added burden of these capital works forcing an IDB into a full audit regime seems disproportionately burdensome.

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?

Not Answered

Please explain your answer (optional):

14 (a) Should the Local Audit Office adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

Not Answered

Please explain your answer (optional):

14 (b) Are there other options relating to responsibility of CIPFA's Code of Practice?

Not Answered

Please explain your answer (optional):

15 Should the Accounting Code be freely available if it is not transferred to the Local Audit Office?

Not Answered

Please explain your answer (optional):

## Capacity and capability

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

Please explain your answer (optional):

17 How should Key Audit Partners (KAP) eligibility be extended further, should some categories of local audit be signed off by suitably experienced Responsible Individuals (and if so, which)?

Please explain your answer (optional):

18 Should the market include an element of public provision?

Yes

Please explain your answer (optional):

ADA supports the introduction of public provision into the market which should ensure that no authority is left without an auditor, as is currently the position, and that an auditor of last resort is always available.

19 If yes, should public provision be a function of the Local Audit Office (LAO)?

Please explain your answer (optional):

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

Please explain your answer (optional):

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

Not Answered

Please explain your answer (optional):

## Audit regimes for different types and sizes of local body

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

Not Answered

Please explain your answer (optional):

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?

Not Answered

Please explain your answer (optional):

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

Not Answered

Please explain your answer (optional):

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

Please explain your answer (optional):

26 Do you agree that the Major Local Audits (MLA) threshold should be increased?

Not Answered

Please explain your answer (optional):

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

Not Answered

Please explain your answer (optional):

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

Yes

Please explain your answer (optional):

ADA welcomes the proposal for a temporary increase to the upper threshold for Smaller Authorities to £10.2m, but recommends it is raised further to £15m. The change to the basis of the level of assurance may not be achieved promptly given all the other pressures on MHCLG and LAO for reform. This gives greater allowance for Internal Drainage Boards undertaking large capital schemes receiving multiyear grants to remain within the Limited Assurance Regime and so prevent them joining the backlog of unaudited authorities.

ADA recommends that previous Smaller Authorities which have been impacted by the upper threshold should be provided with immediate individual guidance on their position. These authorities need to be provided with immediate and individual advice on their audit requirements. Consideration should be given to backdating the financial changes to remove them from Full Audit so they can cease any transitional work preparing for Full Audit.

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

Yes

Please explain your answer (optional):

ADA supports the uplift of the lower threshold broadly in line with inflation allowing the smallest of authorities to remain exempt from Limited Assurance review. ADA suggests that the timing of the lower threshold change should be made in consultation with SAAA to safeguard confidence in the current auditor contracts. ADA would support LAO being given the power to review this limit from time to time.

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

Yes

Please explain your answer (optional):

Making AGAR digital - ADA recommends making the electronic submission of forms a clearly acceptable alternative to wet signatures. ADA would support a change to require compulsory submission of electronic returns.

Local audit backlog

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?

Please explain your answer (optional):

Transparency Code - ADA would support that the review of the application of the transparency codes to Smaller Authorities to ensure all Smaller Authorities are covered by an appropriate code.

32 Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?

Not Answered

Please explain your answer (optional):