

National Audit Office, Auditor Guidance Note 03 (AGN 03) Auditors' Work on Value for Money (VFM) Arrangements – consultation response

September 2020

1. About the Local Government Association

- 1.1. The Local Government Association (LGA) is the national voice of local government. We are a politically led, cross party membership organisation, representing councils from England and Wales.
- 1.2. Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.
- 1.3. We welcome the opportunity to comment on [this consultation](#) on the draft Auditor Guidance Note following the introduction of the new code earlier this year.

2. Response

- 2.1. The consultation asks some specific, detailed questions about the guidance. These questions are better answered by individual councils. We do, however, have some more general comments on the overall note.
- 2.2. In our response to the consultation on the new code last year we made the comment that: “In order to be useful to the local authority and to other users of the accounts, it needs to be made clear in the guidance (or directly in the code) that any commentary needs to be clear and unambiguous. An opinion that is vague will not be of use to the local authority.”
- 2.3. The reporting section of the guidance note concentrates on the reporting of weaknesses identified. Auditors should also clearly state where they find arrangements that are good or satisfactory. Para 53 of the draft guidance does include the sentence “Equally, where an auditor has not identified a significant weakness in arrangements this should be reflected in their commentary.” This instruction should to be expanded. Where auditors find good practice, this should be highlighted and reflected in the commentary, otherwise the emphasis is overly on reporting weaknesses. Similarly, auditors should be encouraged to make it clear in their commentary where arrangements are generally satisfactory with specific exceptions, mirroring the former ‘except for’ judgement.
- 2.4. In our response to the consultation on the code, while we welcomed the change in reporting we commented that “it should be made clear that

changes made, particularly the introduction of the commentary should not have an impact on the scope of the audit. It needs to be clear that the change is on what is reported from the work done on VFM, rather than on the scope of the VFM work itself.”

- 2.5. There is a concern that the new arrangements will result in the auditors deciding that they need to undertake additional work and the level of audit input required (in terms of experience and skill, and so seniority, of auditors) and therefore be used as a reason for increasing audit fees. It would be helpful if the guidance specified that auditors should only undertake such work as is necessary and proportionate in order to reach their conclusion.
- 2.6. There is a further concern that if auditors feel that they need to undertake significantly more work in order to support the new opinion this will have a knock-on effect in terms of the resources the councils will have to use to support any additional work.
- 2.7. It would therefore be helpful if the Auditor Guidance Note could comment on whether the new arrangements are expected to result in significant additional resources being required.
- 2.8. There has been some discussion in the sector of what external evidence auditors should use in coming to their judgement (for example other external inspections such as Ofsted or Her Majesty’s Inspectorate for Fire). We understand that the final guidance will point auditors to “supporting information” like this in coming to their judgement. If such information is formalised in the final guidance in our view it should include reference to peer challenge. Alternatively, or as well, the section titled ‘Additional risk-based procedures and evaluation’, on page 9 and onwards, should include the following paragraph:

“[Where the audited body is a local authority covered by Sector Led Improvement], it is a matter of good practice that the authority should be the subject of a regular corporate peer challenge or equivalent. In reaching a value for money conclusion the auditor might consider whether the authority in question has received such a peer challenge, the content of the peer challenge report and how the council responded to any relevant recommendations”.

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