

## Annex 3 – Functions of the Office of Local Audit Regulation

### Classification

1. To have credibility with local authorities, audit practitioners and other regulators and professional institute, OLAR will need to have a considerable level of professional and technical expertise. This suggests it will need to be constituted as a **non-departmental public body** with the following characteristics.

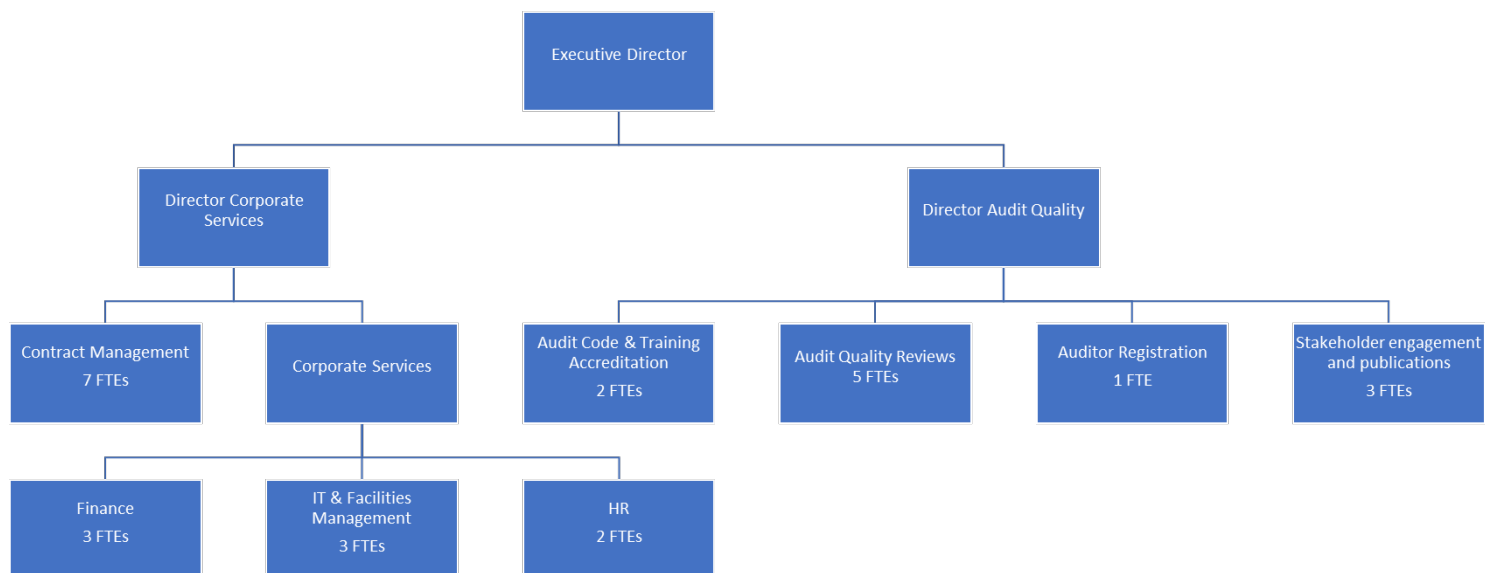
|                            |  |
|----------------------------|--|
| Oversight / Accountability | MHCLG sets strategic framework, minister accountable to Parliament                           |
| Sources of Income          | Included in MHCLG estimate: could be funded through grant-in-aid and/or a levy on audit fees |
| Legal position             | Established and sponsored by Dept. with own separate legal personality, outside of the Crown |
| Duration                   | Permanent  |
| Appointments               | Ministers consulted on appointment of Executive Director                                     |
| Staffing                   | Public servants  |
| Accounting                 | Produce own accounts, consolidated within MHCLG  |

### Functions

2. OLAR should be responsible for the following:
  - a. **Letting the new framework contracts.** The contract management team should draw on the resource of the government commercial function to support them in moving from a standard framework contract to a contract that allows for more dynamic market management.
  - b. **Active contract management.** Including resolving disputes between auditors and local authorities, agreeing fee variations and actively managing the local audit market to ensure that there are sufficient suppliers of audit services.
  - c. **Code of audit practice.** OLAR should take over the functions of the audit code team currently undertaken by the NAO on behalf of the C&AG. This includes issuing Auditor Guidance Notes, considering how wider changes to auditing standards and the audit profession should be implemented in the local government sector, convening the local auditor forum and laying the next update to the Local Audit Code of Practice in Parliament
  - d. **Undertaking audit quality reviews.** OLAR should take over responsibility for AQRs from the FRC and ICAEW. The AQR process should include an assessment of the skills, knowledge and expertise of audit teams. The OLAR AQR team will be required to publish the results of its reviews.
  - e. **Sanctioning firms that do not deliver audits to appropriate level of quality.**
  - f. **Maintaining the register of firms/KAPs qualified to undertake local authority audits.**
  - g. **Producing publications summarising the results of local audit work.** The three publications envisaged are the summary report on the results of audit work previously published by PSAA and two new publications, one summarising the financial audit and value for money risks identified by external auditors and the other summarising recommendations made to the sector.

3. The exact structure and staffing for OLAR will be for the first Executive Director to determine. However, what is envisioned, as per the OLAR Organisational Structure diagram below, is a small body with no more than 30-35 staff.

### OLAR: Organisational Structure



### Governance

4. OLAR is recommended to have an executive management board of three:
- Executive Director (Accounting Officer)
  - Director of Audit Quality
  - Director of Corporate Services (including contracting and contract management)
5. The executive management board should be supported by a non-executive Advisory Panel comprised of representatives appointed by ARGA and by MHCLG, Home Office and HM Treasury (as the departments with relevant policy interests in local authority audit).

### Costing of the new body

6. OLAR has been costed assuming that TUPE will apply where appropriate and that its head office will be in a Government Property Hub outside London. The estimated cost of the new regulator is about **£5m per annum** (see table below). Both accommodation costs and IT and facilities management costs will vary depending on the location chosen and whether OLAR chooses to operate HR and facilities management in house. In addition, set-up costs may be higher, due to the need to recruit appropriately skilled and experienced staff.

| <b>OLAR - Estimated annual running costs</b> | <b>RDEL<br/>£'000</b> | <b>CDEL<br/>£'000</b> |
|--|-----------------------|-----------------------|
| Staff costs                                  | 2,500                 |                       |
| Accommodation cost                           | 500                   |                       |
| Other operating costs                        | 1,500                 |                       |
| Leases (share of build cost)                 |                       | 150                   |
| Software                                     |                       | 350                   |
| <b>New body costs p.a.</b>                   | <b>4,500</b>          | <b>500</b>            |

7. MHCLG will need to retain a small appropriately qualified and experienced team to provide the interface between OLAR and other stewardship functions carried out by the department. The reports that OLAR produces summarising the risks considered and issued identified by external auditors, along with the information produced by the enhanced value for money reporting proposed by the 2020 Audit Code as enhanced by the recommendations in this report, should provide a rich source of evidence to support MHCLG's system stewardship activity.