

Local Audit Liaison Committee

21 September 14:00-15:30

Virtual Meeting

Meeting Note

Attendees

Catherine Frances	Director General for Local Government and Public Services, DLUHC (Chair)
Rob Whiteman	Chief Executive, CIPFA
Karen Sanderson	Director Public Financial Management, CIPFA
Mark Babington	Executive Director of Regulatory Standards, FRC
Gareth Davies	Comptroller and Auditor General, NAO
Abdool Kara	Executive Leader, Local Services, NAO
Mike Newbury	Director Audit, NAO
Steve Freer	Chairman, PSAA
Tony Crawley	Chief Executive, PSAA
Julie Schofield	Senior Manager, PSAA
Alison Ring	Public Sector Director, ICAEW
Dennis Skinner	Head of Improvement, Local Government Association
Nick Munn	Assistant Director, Business Frameworks, BEIS
Michael Sunderland	Deputy Director, Government Financial Reporting, HMT
Robert White	Head of Finance Transformation, DHSC
Ian Ratcliffe	Assistant Director of Sector Financial Accounting, NHS England and NHS Improvement
Carole Tidmarsh	Policy Advisor, DEFRA
Siobhan Jones	Director, Local Government and Communities, DLUHC
Mandeep Samra	Deputy Director, Local Government Strategy, DLUHC

Welcome/Introductions

1. The Chair welcomed members to the meeting, and thanked members for agreeing to attend.

Progress implementing actions from first Liaison Committee meeting and update on procurement

2. Committee members provided updates on progress made by represented organisations on the activities agreed at the first Liaison Committee meeting to support the next procurement process. Members agreed to communicate the benefits of opting-in to next procurement to eligible bodies, based on a summary provided by PSAA, where appropriate. DLUHC provided an update on the conversations it had been having about the extent of potential increased audit costs and how these might be met, and agreed with the LGA to meet to discuss further. Other activities had a longer timescale, or were on track, so it was agreed that Committee members would provide a further update at the next meeting. The Chair asked members if they had any other comments, and the discussion was moved on to the next item.

3. PSAA provided the group with a progress update, following on from the discussion during the first Liaison Committee meeting. The final opt-in prospectus was to be issued in the next week, alongside the procurement strategy and opt in invitation. The procurement strategy would continue to be open for development, so may incorporate work such as the government's consultation on system leadership.
4. PSAA said that, while the activities being undertaken by organisations represented on the Liaison Committee would help to support the market, there remained concerns about lack of capacity within the audit market and local bodies' finance teams, with a shortage of auditors to meet the current demands and requirements within the deadline. PSAA said that as much certainty as possible on the future direction of policy and practice would help give firms the confidence to commit to the market. It was suggested that extending the current Code of Audit Practice for the length of the next appointing period would help with this, and it was agreed to consider further where this would be a desirable outcome for all. PSAA would be running five webinars for eligible bodies and a market engagement event for audit firms over the coming weeks.
5. NAO raised concerns over local bodies devoting less resources to local audit, and local bodies now seem less concerned over publishing late accounts, and asked if there was anything that could be done to increase the priority of timely high-quality accounts for local authorities.

Timeliness, and potential further action to address delays

6. DLUHC led a conversation on timeliness, raising concerns over the expectation of a significant delay in the number of audits that would be completed by 30 September deadline.
7. It was noted that consistently late audits lead to delays in received information about areas of concern. The quality of local audit had always been the priority for the department; however, timeliness was worsening to the extent that it was becoming a quality issue, so it was questioned whether there was a need to look again at more radical options for addressing delays. It was likely that delays were going to be even worse this year, so the committee needed to discuss collective action that could be taken.
8. PSAA said that firms had reported that a large majority of audit opinions would not be published within the deadline. It was noted that there had been a significant delay in the timetable for filing accounts in the private sector due to the pandemic, leading to a significant overhang in work for auditors. It was said that central government audits were due to be back on track by next year, but the expectation was that local audits would take longer to get back on track, given the issues in the local audit system predated Covid-19.

9. In discussion, the following points were made:
 - a. there was a need to hold firms to account for their responsibility to provide sufficient auditors to undertake to produce all the opinions;
 - b. if you issued qualified audit opinions on unresolved matters, there is a risk that it would produce problems longer-term;
 - c. The delays in audit firms completing their audits had started before the pandemic. Feedback from local government included firms postponing local government audits to do other public bodies;
 - d. The major reduction in resources of council finance teams had taken place in the early part of the 2010 decade rather than recently and it would be useful to look at whether councils were still publishing their draft statement of accounts on time;
 - e. there was potentially some value in looking at materiality in relation to issues around pensions and asset valuations, and considering simplifying what was required. This would require coordination between CIPFA/LASAAC and the FRC and would need to be considered very carefully;
 - f. audit committees in local government were relatively underdeveloped compared to other parts of public sector and private sector, and there was potentially room for improvement;
 - g. there were comparisons with the corporate sector where the Companies Act included a statutory deadline on companies to have their accounts signed-off by a certain deadline, but there were pros and cons for considering something similar for local audit;
 - h. there were risks for other parts of the public sector if local audits were prioritised;
 - i. historically local authorities had issued their draft accounts in a timely fashion;
 - j. fee variations meant that the gap between local audit fees and fees for other audit sectors had been closed to a significant degree, but that the returns earned by suppliers remained lower than other sectors, so there was less of an incentive for firms to invest in local audit business;
 - k. there were no quick fixes, and that there would only be a sustainable and well-balanced regime again when there was increased competition in the market and firms were concerned about losing contracts due to underperformance;

10. In concluding, DLUHC noted that the general tone from Committee members was that, while timeliness issues had worsened to a degree that it was becoming a quality issue, any interventions would need extremely careful consideration as there was a high risk of unintended consequences. DLUHC considered the issue to be urgent and that further work was vital to address this, and noted that members felt that more information was needed on how long the situation would take to resolve before further decisions would be made.

Update from Capacity and Capability working group

11. FRC gave an update on the progress made by the Capacity and Capability working group. The group had been engaging with both current and prospective audit firms individually, and also through a roundtable hosted by ICAEW to get their views on the proposals the working group was considering. This included the proposal to consider amends to the Key Audit Partner guidance to allow new routes to becoming a KAP, and the proposal for a new service to act as a technical resource to audit firms and local authorities, including audit committee, to support capacity across the system.
12. It was noted that firms were receptive to the proposal, but there was a question of how it would be funded, as firms were reluctant to invest significantly without knowing if they would be successful in securing future local audit work. It was also noted that this could present a barrier to audit firms putting people through courses to become KAPs if new routes were created.
13. In concluding, DLUHC noted that the proposals were positive and it would be important to hear from the group in future as the work progressed to the next steps, as well as considering what further action would be necessary to address the short-term capacity challenges discussed.
14. The Chair thanked members for their input and asked if there was any other business. The meeting was drawn to a close.