

Local Audit Liaison Committee
13 December 14:00-15:30
Virtual Meeting

Meeting Note

Attendees

Siobhan Jones	Director, Local Government and Communities, DLUHC (Chair)
Karen Sanderson	Director Public Financial Management, CIPFA
Andrew Burns	CIPFA
Mark Babington	Executive Director of Regulatory Standards, FRC
Dawn Dickson	Director of Professional Oversight, FRC
Shazia Ahmed	Professional Oversight Team, FRC
Abdool Kara	Executive Leader, Local Services, NAO
Mike Newbury	Director Audit, NAO
Steve Freer	Chairman, PSAA
Tony Crawley	Chief Executive, PSAA
Alison Ring	Public Sector Director, ICAEW
Alan Finch	Principal Adviser, Finance LGA
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
Matt Cook	Policy Advisor, DEFRA
Adrian Snarr	Sector Accounting and Consolidation, NHS England & NHS Improvement
Sarah Sheen	CIPFA
Matthew Hemsley	DLUHC
Local Audit team	Secretariat

Welcome/Introductions

1. The Chair welcomed members to the meeting. Members welcomed Andrew Burns (CIPFA) to the Board.
2. Catherine Frances (DLUHC) sent her apologies, and Siobhan Jones (DLUHC) chaired this Liaison Committee meeting.

Progress implementing actions from previous Liaison Committee meetings

3. The Chair gave an overview to the actions from previous Liaison Committee meetings and asked if members had any comments. Members had no comments or updates on actions.

Timeliness and potential further action to address delays

4. DLUHC led a conversation on timeliness, raising concerns over the significant delay in the number of audits that had been completed by the 30 September deadline. It was noted that consistently late audits lead to delays in receiving information about areas of concern. The quality of local audit had always been a priority for the department; however, timeliness was worsening to the extent that it was becoming a quality issue, so it was suggested that there was a need to look again at what more could be done to address delays and this should consider the full range of options. It was noted that delays were much worse in 20/21 than previous years, so the Department was bringing to the meeting the package of measures that had been developed in discussion with partners on collective action that could be taken.
5. DLUHC discussed the proposed measures to support improved timeliness of local audit, with measures relating to audit firms, local bodies, accounting and audit requirements and longer-term measures. Although some of the measures attract some risk, which is why they had not previously been pursued, the key question was whether the benefits outweighed the risks given the wider context.
6. Overall, the committee welcomed the package of measures, acknowledging it represented a whole system response to tackling audit delays. The committee felt that the list was comprehensive with few additions that could be made. The discussion therefore focused on the pros and cons of any additional measures and potential risks that everyone should be mindful of when implementing the package.
7. In discussion, the following points were made:
 - a. Questions as to whether regulation, including possible sanctions, for delays, had been considered as an option as a way of facilitating behaviour change in the sector, but it was also noted that this could destabilise the market, when the fundamental issue is capacity. Whether additional steps could be taken on the issue around the valuation of non-investment capital assets, given some stakeholders had expressed views that certain areas of the audit may be of less value than others to the end user.
 - b. Recognition that the measures proposed by DLUHC cover a range of areas which will take time to implement.
 - c. Noted that extending the accounting deadline would mean a longer period before information was published which could reduce public accountability. However, it was also recognised that in reality most places were facing such delays anyway.
 - d. Need to consider the impact of extending deadlines on the health audit timetable. Some NHS organisations are struggling to appoint an auditor.

- e. An acknowledgement that the quality of audit is improving despite wider timeliness issues and therefore, there is a need to be cautious about changing direction of travel. Need to ensure that the fee regime for local audit is sustainable.
 - f. Comments that although the majority of local authorities publish their draft accounts on time, in some cases auditors are unable to issue opinions within the deadline due to issues with the preparation of the accounts.
 - g. Concern that additional local authorities may be classed as Public Interest Entities (PIE) under BEIS' proposals to expand the PIE definition. Some authorities did not fall under the existing definition originally but have ended up with a PIE in their group, by virtue of it having listed debt.
8. CIPFA noted that they are midway through a piece of work sampling ISA 260 reports from 19/20 to look at key reasons adjustments were made to the accounts. CIPFA to circulate this once complete.
9. The Chair thanked colleagues for their comments which would be considered as part of finalising and communicating the package. The intention was for the final measures to be part of a short update to the sector in the coming weeks and, if possible, before Christmas.

Update from Capacity and Capability working group

10. FRC gave an update on the progress made by the Capacity and Capability working group. The group has engaged with both current and prospective audit firms individually, and through two roundtables to seek views on the proposals of the working group. This included the proposal to consider amendments to Key Audit Partner (KAP) 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 committees, to support capacity across the system. The FRC are now in the process of drafting the consultation document for the KAP guidance.
11. CIPFA gave an update on the prioritisation of the local audit diploma, which would facilitate training for auditors to address knowledge gaps. In terms of delivery, CIPFA is currently developing further components for the proposal, including the rationale, scope, costs and resources. The qualification could be set up quite quickly, depending on the exact delivery model, whereas the technical advisory service would take longer due to the recruitment of experienced practitioners.

Update from the NAO

12. NAO provided an update on guidance, discussing the updates to AGN03 and AGN07 from FRC involving rolling forward the delay to Value for Money (VfM) commentary arrangements for 2020/21. Evaluation of the VfM work has revealed that the new VfM commentary is starting to make an impact, attracting increasing press attention – even being featured in Parliament recently. The NAO are planning to evaluate the impact further.
13. NAO have communicated to auditors that they can talk about areas of improvements with the bodies they are auditing, providing these are not areas of significant weaknesses. NAO have also reminded auditors that it is permissible to combine reporting for authorities that are merging.
14. NAO reminded Committee members of the agreed protocol around pensions outside of the guidance to improve the flow of communication, which seems to have worked, giving more timely delivery of pensions assurance. The NAO has also dealt with a specific technical issue on the certification relating to audit completion to ensure a systematic and consistent approach.
15. The NAO referenced various other advice in development namely on audit planning for local government and the NHS, but also a supplementary advice note on auditors' approach on going concern. Other minor amendments to other advice notes were currently only being considered at this stage. Separately, NAO noted how it would be helpful for Committee members to be aware of the various networks that the NAO run to support guidance setting functions.

Updates from other organisations

16. PSAA provided a progress update on the procurement arrangements, following on from the discussion at the second Liaison Committee. To date a total of 129 bodies have committed to opt-in to PSAA's scheme, and PSAA have completed 2 webinars for eligible bodies, with a further 3 planned, and a market engagement event for audit firms. PSAA are proposing 13 lots for registered suppliers to bid for. They are looking for at least 5 firms to bid for the main lots and 3 for the development lots, making a minimum of 8. Firms will initially be able to win a maximum of 2 of the 10 main lots or a maximum of 1 of the 3 development lots, and will then potentially be awarded any lots that remain.

17. On timings, firms that are not yet accredited need to start the registration process by 18 March 2022 with the ICAEW to pass through the Selection Questionnaire (SQ) stage. Contracts are due to be awarded in late August and so firms will need full registration by 22 September. Regarding timeliness, as at 30 November 2021 a total of 28% of 2020/21 audit opinions have now been given – compared to 45% of 2019/20 audit opinions given by 30 November 2020.

AOB

18. The Chair thanked members for their input and asked if there was any other business. The meeting was drawn to a close.