

Local Audit Liaison Committee

19 May 2022 14:00-15:30

Virtual Meeting

Meeting Note

Attendees

Siobhan Jones	Director, Local Government Policy, DLUHC
Mark Babington	Executive Director of Regulatory Standards, FRC
Gareth Davies	Comptroller and Auditor General (C&AG), NAO
Tony Crawley	Chief Executive, PSAA
Mike Newbury	Director Audit, NAO
Steve Freer	Chairman, PSAA
Julie Schofield	Senior Manager, Business and Procurement, PSAA
Sarah Sheen	Technical Manager, Local Government Financial Reporting, CIPFA
Kirsty Stanners	Head of Policy and Technical, CIPFA
Andrew Burns	CIPFA
Alison Ring	Director of Public Sector and Taxation, ICAEW
Dennis Skinner	Head of Improvement, Local Government Association
Nick Munn	Assistant Director, Business Frameworks, BEIS
Shazia Ahmad	Professional Oversight Team, FRC
Alan Finch	Principal Adviser Finance, LGA
Abdool Kara	Executive Leader, NAO
Carole Tidmarsh	Policy Advisor, DEFRA
Nick Munn	Assistant Director, Business Frameworks, BEIS
Adrian Snarr	Sector Accounting and Consolidation, NHS
Eva Siwiak-Jaswek	Section Head – DHSC Annual Report, NHS
Michael Sunderland	Deputy Director, Government Financial Reporting, HMT
Matt Allen	Local Government and Reform, HMT
Tony Grimshaw	Home Office
Radhika Sriskandarajah	Deputy Director, Local Government Performance, DLUHC
Myles Binney	Head of Local Audit, DLUHC
Local Audit Team	Secretariat, DLUHC

Welcome/Introductions

1. The Chair welcomed members and acknowledged that there had been a gap since the previous meeting due to scheduling difficulties.
2. The Chair welcomed three new committee members:
 - a. Radhika Sriskandarajah, Deputy Director, LG Performance, DLUHC
 - b. Kirsty Stanners, Head of Policy and Technical, CIPFA
 - c. Tony Grimshaw, Home Office

Minutes and actions from previous meetings

3. Minutes from the previous meeting were confirmed as accurate and ready for publication on the [Committee's site](#).

4. There were 13 actions from previous meetings. The committee agreed to close all actions except number 7 relating to the Capacity and Capability Working Group's work to support upfront costs for new entrants. This will be taken forward by DLUHC.

DLUHC Update

5. Myles Binney, Head of Local Audit, provided an update on DLUHC's progress as system leader since December:
 - £15m grants for local bodies for support towards increase in local audit costs arising from Redmond recommendations and other increased auditing requirements, issued in March 2022.
 - There is a live consultation to amend audit deadlines from September to November for 2021-22 to support timeliness issues. If agreed, a Statutory Instrument (SI) will be laid in June.
 - The department recently endorsed CIPFA's position statement on Audit Committees.
 - The Redmond technical consultation response will be published on 31 May. Thank you to all who responded.
 - A letter has been drafted as interim system leader to the sector which we will share with members, publish and ask members to share across their networks. The [letter](#) will include updates on recent activities.
6. Myles Binney summarised the key priorities over the coming months:
 - a. Working with FRC as they continue to evolve into shadow system leader to establish roles, responsibilities and timelines
 - b. Test the *Technical Advisory Service* specification with the market
 - c. A further £45 million across three years to be allocated and paid to local bodies for support towards the increased costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.
7. Myles Binney thanked members for continuing to offer intelligence and feedback on progress since the previous meeting.

Future of system leadership

8. Mark Babington, FRC, summarised the future of system leadership:
 - FRC has recruited Neil Harris as the FRC's first Director of Local Audit to lead the dedicated local audit unit from September 2022
 - Ahead of that, as set out in the 25 May letter to Liaison Committee members the FRC will begin early engagement with Committee members and other senior stakeholders on system leadership.
 - BEIS confirmed that as the Queen's Speech confirmed the Bill would not be introduced until 4th session 2024, although a draft bill will be published during 3rd session. This means ARGAs will not now be established before 2024 at the earliest. Further information will be included in the consultation of the BEIS white paper which will be published on 31 May.

Infrastructure assets

9. Sarah Sheen (CIPFA) gave an update on work to address challenges relating to the accounting treatment of infrastructure assets:
 - Accounting treatment for infrastructure assets, such as highways, is complex. There is an historical information deficit, which is an obstacle to the completion of accounts.
 - CIPFA has established a task and finish group to review the issue and identify a short-term solution. There is still a need to identify a longer-term solution.
 - CIPFA is producing guidance on accounting for infrastructure assets which will address the issues. This will include recommendations on effective depreciation policies.
 - The Committee invited a discussion on further actions that could be taken by committee members to address the challenge and thanked CIPFA for their work to try to resolve.
 - There was a discussion around the likely factors affected why this issue had become more problematic this year, including the impact of the fine imposed by the FRC on Mazars, and whether there were actions or messages that could be taken to mitigate impact. There was concern that the impact of regulatory risk on auditor behaviour had become pervasive. Auditors are carrying out significantly more work than 3 years ago but the clients' feedback is that they do not consider the additional work to be targeted at the right areas, and unless the disconnect between preparers and auditors in terms of what level of evidence was needed is addressed then the current issues will not be resolved.

Procurement and delayed opinions

10. Tony Crawley (PSAA) provided an update on outstanding audits and the current procurement exercise:
 - 470/475 (99%) of eligible local bodies opted-in to the scheme in March.
 - There are 212 outstanding audit opinions for 2020/21.
 - PSAA has established a dynamic purchasing system that will provide a new route to procure audit services for opted-in bodies. The DPS will enable PSAA to tap into available audit capacity as and when the need arises and will support PSAA's efforts to encourage a more sustainable market. It is expected to be in place through to 2030.
 - Bids for contracts for the next five years are live and the tender closes on 11 July. Whilst sufficient bids would result in PSAA being able to appoint firms to all opted-in bodies for the next five years, PSAA highlighted that the current situation leads to a risk of a supply shortfall. In such circumstances PSAA's options include extending one or more existing contracts, but the preference is for new long term contracts.
 - Adrian Snarr (NHS) advised that although NHS bodies are filing accounts on time, in some cases there has been a deterioration in quality. There are challenges ahead, including the impact of Clinical Commissioning Groups (CCG's) transitioning into Integrated Care Boards (ICB's), along with

issues relating to social care staff in the Local Government Pension Scheme (LGPS).

Audit Committee position statement

11. Kirsty Stanners (CIPFA) explained that the new [CIPFA position statement](#) was recently published and endorsed by HO and DLUHC. The statement has been promoted through various channels including social media. Committee members were encouraged to publicise through their networks.

NAO emerging issues and guidance updates paper

12. Mike Newbury (NAO) presented a paper on emerging issues:
- The paper is a comprehensive picture of what has happened over last few months. It contains dates and timings of ongoing auditor liaison meetings. Any Liaison Committee members can join these meetings and NAO can facilitate this.
 - The key topic on NAO's horizon is the delay in final delivery of VFM commentaries. Auditors should report on risk VFM and should not delay if they are ready.
 - PAC remains interested in local audit and is keen to resolve the ongoing issues as quickly as possible.
 - NAO remains committed to provide a full service and support the sector in whatever way they can.
 - Andrew Burns (CIPFA) discussed the LGPS and the fact that it is now in surplus for the first time since the last financial crisis of 2008. Whilst this is overall a good thing it means that Chief Financial Officers (CFOs) are concerned that there are likely to be increases in asset valuations as a result. The NAO confirmed they are aware of this. CIPFA is keen to talk to auditors about their concerns in this area.

AOB

13. The following points were made:
- Alan Finch (LGA) confirmed that regional forums for audit committee chairs are being delivered and have been well received. LGA invited committee members to speak at these forums.
 - Tony Crawley (PSAA) asked whether potential new routes to becoming a Key Audit Partner (KAP) will be discussed in the DLUHC update letter and Myles Binney (DLUHC) confirmed.
 - Mark Babington confirmed that [guidance on the FRC sanctions process](#) can be accessed via the FRC website.
 - The Chair asked members to get in touch with the DLUHC Local Audit team should they have any agenda items for discussion at the next Liaison Committee or proposals for further action.
 - Potential dates for the next committee will be circulated in due course. The Chair thanked members for their input. The meeting was drawn to a close.