

## Local Audit Liaison Committee

28 July 2022 11:00-12:30

### Virtual Meeting

#### Meeting Note

#### Attendees

Catherine Frances (Chair)	Director General, Local Government, Resilience and Communities, DLUHC
Siobhan Jones	Director, Local Government Policy, DLUHC
Mark Babington	Executive Director of Regulatory Standards, FRC
Sarah Rapson	Executive Director of Supervision, FRC
Gareth Davies	Comptroller and Auditor General (C&AG), NAO
Tony Crawley	Chief Executive, PSAA
Mike Newbury	Director Audit, NAO
Steve Freer	Chairman, PSAA
Dawn Dickson	Director Professional Oversight, FRC
Julie Schofield	Senior Manager, Business and Procurement, PSAA
Kirsty Stanners	Head of Policy and Technical, CIPFA
Sarah Sheen	Technical Manager, Local Government Financial Reporting, CIPFA
Alison Ring	Director of Public Sector and Taxation, ICAEW
Alan Finch	Principal Adviser Finance, LGA
Abdool Kara	Executive Director, NAO
Michael Sunderland	Deputy Director, Government Financial Reporting, HMT
Nick Munn	Assistant Director, Business Frameworks, BEIS
Adrian Snarr	Sector Accounting and Consolidation, NHS
Ian Ratcliffe	Assistant Director of Sector Financial Accounting, NHS
Eva Siwiak-Jaszek	Section Head DHSC Annual Report, DHSC
Michael Sunderland	Deputy Director, Government Financial Reporting, HMT
Matt Allen	Local Government and Reform, HMT
Matt Cook	Protected Landscapes Grant Manager, Defra
Tony Grimshaw	Home Office
Myles Binney	Head of Local Audit, DLUHC
Matt Hemsley	Head of Local Government Capital and Accounting, DLUHC
Local Audit Team	Secretariat, DLUHC

#### Welcome/Introductions

1. The Chair welcomed members to the fifth Committee meeting and outlined the agenda.

#### Minutes and actions from previous meetings

2. DLUHC thanked those who attended the last meeting in May and noted that the minutes can be accessed via the [Committee's site](#).
3. There are three actions that remain outstanding from the previous meetings and will form part of the meeting's discussions.

## **System Leader Shadow**

4. The Chair thanked FRC for circulating a paper to members setting out plans for the System Leader Shadow function; and NAO for providing an NAO update paper.
5. FRC updated the Committee on plans for the System Leader Shadow period:
  - The incoming Director of Local Audit is to lead the local audit unit at FRC from 12 September 2022. The dedicated unit will be assembled from then – some recruitment is underway.
  - Ahead of that, FRC has conducted early engagement on issues facing the sector and priorities for the new unit. Key findings include: What can we do to address market share and increase capacity and capability? How can we improve capacity within local authorities to ensure a better product to work with? How do we demonstrate progress made?
  - FRC shared an organogram showing how the new Director of Local Audit would be structured within FRC's existing Supervision and regulation directorate
  - FRC's Director of Supervision introduced herself to the Committee.
6. It was asked how the FRC/ARGA's system leader role would be distinguished from its existing supervision role in the current system, considering it would sit on the supervision side of the organisation. The need for the system leader function to be independent from supervision was stressed and the risk of a 'dilution' of the system leader function was raised. The FRC explained the Director of Local Audit would be separate from other roles in the FRC's Supervision department. As the system leader the director of local audit will have a commissioning relationship with other parts of the organisation.
7. It was questioned what FRC's key priorities for system leadership were and it was queried whether work relating to local authority accounts would be taken into consideration. In terms of key priorities, FRC said that the new director would act as a commissioner and convener. On the specific matter of local authority accounts, FRC noted the need for councils to both provide accountability to stakeholders while conforming to international standards.
8. It was questioned what progress had been made on the local audit functions currently undertaken by NAO (that FRC have said cannot move over to the FRC). It was agreed this would be picked up outside the meeting.
9. The Chair reflected that a holistic approach is needed to the big questions affecting the sector and that the Committee will support the Director for Local Audit and team to develop proposals to address the key challenges and a clear statement of the role of system leader.

## **Capacity and Capability**

10. DLUHC provided an update on the work to create a Technical Advisory Service (TAS) and a professional qualification for Local Audit. DLUHC has undertaken a pre-market test exercise which recently closed. There will be an invitation to tender exercise in place for six weeks over August and September with

contracts due to be awarded in autumn with a view to both schemes to be operational by April 2023.

11. FRC updated the Committee on the recently published Key Audit Partner (KAP) guidance. Their stated priority was to make sure audit quality is maintained, and those signing an audit opinion being fully qualified with the first audits of those newly qualified in public sector audits having their work quality assured, ie “hot file reviewed”. Guidance is in the public domain but training availability is needed for guidance to be fully effective.
12. It was asked whether there will be an evaluation exercise to assess quality and success of guidance. FRC told the Committee that monitoring was planned on guidance usefulness.
13. It was commented that local audit has a value for money (VFM) commentary requirement that does not exist within the commercial audit sector. This is considered an attraction to many auditors working within the local audit sector. NAO also mentioned that if local audit becomes overly diluted this will impact the current shortage in auditor supply even further.
14. PSAA presented a paper on auditor capacity, suggesting that research is needed into how we can tap into the wider market. NHS England commented that their teams are working closely with DLUHC on the big system leadership issues that affect both NHS and local government audits.
15. It was asked whether the proposed research would benefit from also considering the attractions of working for other audit sectors, e.g. how distinct is local audit from the commercial sector? FRC commented that it is important to consider the international context when considering capacity, reflecting on the reduced pool of auditors available post-Brexit with most audit firms struggling to recruit within the UK.
16. It was commented that whilst the local audit sector is passionate about public service, changes to the Companies Act have resulted in the requirements for local and commercial audit becoming more similar.
17. The Chair thanked PSAA for its paper, commenting that whilst there were clearly good levels of engagement, more clarity on next steps is required.

### **Infrastructure assets**

18. CIPFA provided an update on current 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.
  - The group consulted in May and June over a proposed three step solution:
    - Adaptation for derecognition of parts of the network where replacement expenditure takes place
    - Adaptation for disclosure of gross historical cost and accumulated depreciation
    - Interpretation guidance on how depreciation might be reported for infrastructure assets

- There was strong support from the consultation respondents for most elements of the potential solution. These were taken to the Financial Reporting Advisory Board (FRAB). The Board's decision was not formalised, but it raised concern on the need to use the best information available. The group will now review all available options before seeking to amend.
- It was asked whether there was a sense of how many accounts are currently being held up by the Infrastructure Assets issue. CIPFA understands that whilst this issue has not yet impacted all authorities it is likely to affect all highways authorities in future.
- It was queried whether FRC could instruct audit firms not to look at Infrastructure Assets for a short period until a solution has been found. The Committee felt that this would not be a possibility.
- A member wondered whether the regulatory regime needs to shift to make it work for all. It was asked whether there was anything we could do in the immediate term to make the Code work. CIPFA believes that the statutory option will provide the quickest results.
- The Chair asked DLUHC to convene a sub-group of the Committee to consider ongoing issues with timeliness, including delays relating to the audit of local authority infrastructure assets, in greater depth.

## **Procurement**

19. PSAA provided a brief update on the auditor procurement exercise:

- Due to the confidential and commercial nature of the exercise full details could not be disclosed at the time of the meeting.
- The invitation to tender window closed on 11 July. The evaluation process has now been completed. The result will be taken to the PSAA board meeting on 4 August. The outcome following this will be announced shortly after.

## **HMT Thematic review**

20. HMT updated the Committee on the thematic review:

- A Financial Reporting Advisory Board (FRAB) meeting was held on 18 June. Minutes and other documents can be viewed on the [FRAB site](#).
- FRAB will now undertake a further appraisal of alternative proposals and gather further empirical evidence on the current regime before taking final proposals to FRAB in November. Due to the need for consultation, changes are unlikely to happen in 2022-23.

## **AOB**

- There was no other business.