

## Agenda

<b>Meeting</b>	Liaison Committee 8 Follow up
<b>Date and Time:</b>	27 June 2023 12.05
<b>Venue:</b>	Bryan Room, 4 <sup>th</sup> Floor, QEII Conference Centre, London SW1 Microsoft Teams
<b>In Attendance:</b>	<p><b>Chair: Sarah Rapson, FRC</b></p> <p><b>FRC</b> Neil Harris, Susan Currie, Rikin Tailor</p> <p><b>DLUHC</b> Elizabeth Parckar, Siobhan Jones, Radhika Sriskandarajah, Hanan ElOmrani, Paulette Farsides, Will Hannam, David Percival, Joe Saffer, Matthew Hemsley, Robert Maxwell</p> <p><b>NAO</b> Gareth Davies, Mike Newbury, Abdool Kara</p> <p><b>CIPFA</b> Rob Whiteman, Iain Murray</p> <p><b>ICAEW</b> Duncan Wiggetts</p> <p><b>PSAA</b> Steve Freer, Tony Crawley, Julie Schofield</p> <p><b>DBT</b> Nick Munn</p> <p><b>HMT</b> Charlotte Goodrich</p> <p><b>NHS England</b> Vicky Gaulter</p> <p><b>DHSC</b> Robert White, Eva Siwiak-Jaszek</p>
<b>Apologies</b>	<b>DLUHC</b> Catherine Frances

### 1 Welcome / Apologies / Introduction

The Chair welcomed attendees, explaining that there was only one agenda item: discussing and agreeing the proposed set of measures to address Local Audit delays. To help frame the discussion the Chair referred to supporting papers from FRC / DLUHC; NAO; and CIPFA.

## 2 Proposals to address Local Audit delays

To inform the discussion and decisions, the following documents were circulated:

*a. DLHUC and FRC joint slides which sets out the current policy proposition, measures, expectation of all system participants, governance, timeframes, outstanding policy and implementation questions.*

*b. NAO update, on behalf of the C&AG, setting out proposals which the C&AG is minded to consider on a time limited revision to the NAO Code of Audit Practice.*

*c. CIPFA, CIPFA LASAAC update on its activities and proposed accelerated timetable for changes to the Code of Practice for Local Authority Accounting in the UK.*

The Liaison Committee heard a summary of the policy proposition from each report owner and responsible officer at DLHUC, FRC, NAO and CIPFA. The Liaison Committee then had a wide-ranging discussion on potential significant risks and unintended consequences of the proposal and whether there was a viable alternative that had not been considered so far.

The Liaison Committee agreed that the following matters should be clarified and pursued through detailed implementation plans and task and finish groups:

1. Impact on opening balances and the level of assurance that will be provided on local audit financial statements by the backstop date for the 2022/2023 audits.
2. That the NAO have appropriately considered that the revised Code of Audit Practice is designed in a way that achieves what the system as a whole think is proportionate and appropriate.
3. That DLHUC continues to consider the interrelationship between the policy proposition and its ongoing stewardship and accountable officer role for Local Government bodies.
4. That FRC regulatory team ensures it provides a clear public statement on how the policy proposition impacts its role on AQR, enforcement and supervisory activities. In doing so, this should address the behaviours being seen by auditor suppliers on not progressing audit work, disagreement with NAO guidance; not concluding because of either "the fear of the regulator" or "asking for FRC guidance or clarification notes" to obtain cover from their professional practice and risk management teams before an audit opinion is issued.
5. That disclaimed opinions because the auditor has not had sufficient resources and capacity to undertake their work by the backstop date should be minimised as far as possible. To support that, it was proposed that auditors could apply a management-imposed limitation of scope audit opinion to recognise the level of assurance that has been obtained from part complete audits.
6. Guidance and support to Chief Financial Officers on their responsibilities for certifying the

final accounts and briefing elected members is critical, particularly where disclaimed audit opinions are being proposed.

7. An extensive and coordinated communication and stakeholder engagement plan is needed, supported by a whole system framework jointly signed by all regulatory bodies.
8. There is a risk that without clarity on the direction being taken by CIPFA on the future financial reporting code and the case for change, proportionality on assets and pension valuations, a backlog may occur again in the future. There is caution from HMT about the future measurement basis for the valuation of specialised assets and pensions and the need to ensure congruence between HMTs thematic review across the public sector and CIPFA's work for local authorities. Linked to this, the system leader(s) need to have considered all the possible scenarios that could give rise to the risk of the backlog coming back and ensure these are mitigated appropriately.

The Liaison Committee agreed these are implementation points: risks, unintended consequences that need to be addressed but both individually and collectively do not undermine the current policy proposition to address Local Audit delays. No other alternative proposal was presented at the meeting that commanded consensus, support and minimised risks any further. The proposition was seen as the most appropriate and proportionate response to an unacceptable set of circumstances and a desire to bring timely local audits back on track. In doing so the Chair and other members welcomed how all system participants showed that they could move and get to uncomfortable positions when examining what are seen as bold, unprecedented proposals.

With that in mind, the Liaison Committee agreed that the Department, working with the FRC, as shadow system leaders would seek to develop the following aspects of the policy proposition:

1. Confirm the backstop dates proposed for the financial years to 31st March 2024.
2. Confirm, in principle, that it supports the C&AG being minded to revise the Code of Audit Practice for a time limited period from the 2022/2023 financial year and recommends that the C&AG and NAO progress with their programme management plans to work with system participants and thereafter obtain parliamentary approval.
3. Recommend that CIPFA prioritises its work to revisit the Local Government financial reporting code.
4. Approve that a task and finish group is established to ensure all elements of the backlog solution are coordinated and delivered by system participants.
5. Agree to DLUHC and FRC jointly implementing a communication and stakeholder engagement plan to ensure the policy proposition is communicated to all system participants by the end of July 2023.

### **3 AOB**

Nothing was raised under Any Other Business.

#### **4 Date of next meeting**

The next meeting will be held on 20 September 2023. Invites will be sent shortly. This meeting will include the review of the Liaison Committee and recommendations on membership and terms of reference.

**Susan Currie, FRC, 28 June 2023**