

Agenda

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| Meeting | Liaison Committee 8 |
| Date and Time: | 3 May 2023 13.30 |
| Venue: | Dearing Room, FRC offices Microsoft Teams |
| In Attendance: | <p>Chair: Catherine Frances, DLUHC</p> <p>FRC Neil Harris, Susan Currie, Rikin Tailor, Anthony Barrett</p> <p>DLUHC Elizabeth Parckar, Siobhan Jones, Radhika Sriskandarajah, Hanan ElOmrani, Paulette Farsides, Will Hannam, David Percival, Joe Saffer, Matthew Hemsley</p> <p>NAO Gareth Davies, Mike Newbury</p> <p>CIPFA Iain Murray</p> <p>ICAEW Alison Ring, Duncan Wiggetts</p> <p>PSAA Steve Freer, Tony Crawley</p> <p>DBT Nick Munn</p> <p>HMT Sarah Geisman</p> <p>LGA Alan Finch</p> <p>NHS England Vicky Gaulter</p> <p>DHSC Robert White</p> |
| Apologies | <p>FRC Sarah Rapson</p> <p>CIPFA Sarah Sheen</p> |

1 Welcome / Apologies / Introduction

The Chair welcomed attendees, explaining that this was the first Liaison Committee meeting to be organised by the FRC. The Chair explained that due to an unforeseen and urgent personal matter, Sarah Rapson gave her apologies and intends to chair the next meeting. The focus of

the meeting would be on suggesting ways to address the backlog of local authority audited accounts and related timeliness issues. Everyone was encouraged to engage, noting that some suggestions may not suit everyone and may be uncomfortable for some.

2 Minutes & Actions from last meeting

DLUHC introduced the minutes and noted that there was an open action for Committee members to provide the FRC with contact details of the person(s) in their organisation best placed to assist with the workforce strategy workstream. There were no comments on the minutes themselves.

Action: By 2 June 2023, Local Audit stakeholders if not already done so should confirm with the FRC name(s) of individuals that will support the FRC's system wide work to develop a Local Audit workforce strategy.

3 Timeliness

FRC and DLUHC presented the paper on timeliness, focusing on the actions and next steps required to address the urgent and pressing priority to address the backlog of local bodies' audit opinions and whether there are any immediate measures that can be taken on the audit requirements for the valuation of certain assets.

It was noted that the roundtables with Minister Rowley had been successful. DLUHC expanded on this, saying that this is about fixing the backlog but also ensuring a framework is in place to avoid a repeat in the future and securing a sustainable local audit system that values high quality and timely financial reporting, governance and audit.

DLUHC intends to work with the FRC to jointly establish working group sessions with representatives from practitioners, auditors, regulatory bodies and elected members to develop a policy proposition which addresses risks and unintended consequences to inform policy development.

In discussion the following points were made:

- We need to take elected members with us given the important role they have on governance and accountability for financial reporting. The LGA confirmed they are willing to facilitate nominating representatives to participate in the working session.
- All stakeholders need to consider the limits of the options available to them in order that DLUHC and the FRC are able to consider measures which are the most viable and strike the right balance between impact, risks and unintended consequences.
- The system needs to avoid cherry picking measures that may resolve the backlog in the short term but lead to unintended consequences and a repeat of the delays in the future
- Addressing the causes of the current culture and behaviours of local audit stakeholders is

critical to make sure actions taken now and in the future lead to sustainable change. The critical area to resolve is the relationship and clarity of expectations between the audit firms and the FRC's regulatory role and how this will take account of the current unsatisfactory position with the timeliness of local audits and the actions proposed to address it. Finally, there needs to be an equitable set of levers and consequences for preparers and auditors for poor timeliness and quality of financial reporting, governance and audit.

- The C&AG and NAO noted they would consider temporary policy solutions which required changes to the Code of Audit Practice, if agreement was reached that such changes were necessary and would achieve the desired result. It was stressed that it is important that all representatives on the Liaison Committee set out the steps they could take to support the implementation of actions to address the backlog. The C&AG reiterated that making temporary amendments to the Code of Audit Practice to help clear the backlog of audits is an unwelcome and unsatisfactory position to be in but on balance it is worth considering as the risks of not addressing the backlog now are much greater.
- Consultation with preparers and auditors is critical. The FRC and DLUHC need to understand the extent to which the audit firms will need to consult and seek approval from professional practice and risk management teams to any of the options, particularly the most radical ones.
- There is an opportunity in addressing the backlog of local audits to make financial reporting of greater value and more attuned to intended users of accounts.
- The appropriateness of the current £500m threshold for Major Local Audits was highlighted and whether it should be increased, queried.
- It is critical that any proposition is communicated consistently across the system and implemented in an orderly way.
- Understanding the interdependencies with the NHS financial reporting and audit timetables over the next 18 months is critical to avoid any unwanted precedents and the risk of creating a timeliness issue in another part of the local audit system.

The Chair summed up with the following agreed actions:

Action: FRC to set up working group sessions with preparers, auditors and regulators to consider different options, risks and unintended consequences. Liaison Committee members are asked to provide views on the areas of focus, critical risks and how they can use their role and responsibilities to implement a viable policy proposition. Liaison Committee members to provide feedback to the FRC Director of Local Audit and DLUHC Local Audit officials by the 5 May 2023.

Action: FRC Local Audit unit to continue its existing engagement with its regulatory side as the policy propositions are developed.

Action: A Liaison Committee meeting will be arranged in the summer to consider FRC and DLUHC's policy development.

4 Liaison Committee Review

FRC presented the paper setting out the proposed approach to a review of the Liaison Committee's operations, explaining it would take the form of a Board Effectiveness Review. Attendees supported the review and made the following points:

- It is good that the review will consider whether the current size of the Committee is appropriate.
- There are parts of the system without current direct representation on the Committee whose membership should be considered, for example CIPFA LASAAC.
- The practicalities of decision-making and governance between the Liaison Committee and the respective arrangements for each of the local audit stakeholders will need careful consideration.

Action: Committee members to provide any comments on the paper by 2 June 2023. In particular, Liaison Committee members to confirm how they wish to contribute to the review of the Liaison Committee's effectiveness, risk framework and feedback on how the Committee has operated so far.

Action: The FRC will use the effectiveness review and feedback, together with the development of the risk framework, to schedule the next routine meeting of the Liaison Committee in September 2023 and quarterly thereafter.

5 Readiness

DLUHC explained that DBT (formerly BEIS) has created governance expectations for FRC and that DLUHC will follow suit. The intention is to issue an annual remit letter to which the FRC will, shortly after, publish a response. A draft of the first remit letter will be previewed with the Committee.

The NAO noted support for the remit letter to include a clear objective for the FRC to ensure that a framework is put in place to address the unsatisfactory position with Local Government audit backlogs and how this will ensure sustainable high quality and timely financial reporting, governance and audit in the future.

FRC referred to the details in the paper articulating the significant amount of work that has been completed to enable the FRC to be ready to start as shadow system leader. The FRC also highlighted the remaining tasks on developing a system risk register and risk framework; protocols for making policy recommendations to DLUHC and other local audit stakeholders; as well as the work required on the Liaison Committee Chair and Secretariat functions.

6 NAO update

The NAO introduced their paper setting out the work that had been undertaken that was associated with the Code of Audit Practice guidance and activities since the last Committee meeting. A priority during this period has been supporting the NHS audit networks.

7 AOB

Nothing was raised under Any Other Business

8 Date of next meeting

FRC noted that the intention was to hold meetings quarterly but would convene an additional meeting on local audit timeliness in the summer. Potential dates will be circulated shortly.

The Chair thanked everyone for attending and closed the meeting.

Susan Currie, FRC, 4 May 2023