

Local Audit Quality Forum – London 18 April 2018

Steve Freeman and Clive Portman attended the inaugural meeting of the Local Audit Quality Forum (LAQF) which was organised by Public Sector Audit Appointments (PSAA). Around 150 delegates attended the meeting made up mainly of Directors of Finance and Audit Committee Chairs from the bodies to whom PSAA recently appointed external auditors for 2018/19 and onwards.

The purpose of LAQF is for it to be a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

The meeting was addressed by a broad range of speakers as follows:

Sir Amyas Morse, Comptroller & Auditor General for the National Audit Office (NAO) set out the importance of public audit, and the NAO's role and responsibilities in relation to local audit. He referred to:

- Public audit being wider than the scope of commercial audits and the need for public audit to focus on the challenges and risks at the local level.
- Concerns re financial sustainability of public sector bodies with a 50% real-terms fall in spending in local government and that social care now makes up 54% of local government spending.
- 30 qualified Value for Money (VFM) Conclusions being issued by external auditors recently - mostly in relation to financial sustainability.
- The possibility that there might now be too few firms in the public-sector audit market and a concern that the recent further audit fee reductions of 23% in 2018/19 might affect audit quality given that he will not be reducing the audit work needed under the Code of Audit Practice (CoAP) which the NAO now has responsibility for.
- The need for Audit Committees to recognise the current pressures on public business and that Audit Committees need to step up their role in effective challenge and scrutiny.
- A new CoAP will be issued in 2020 and the NAO will consult extensively prior to finalising the new Code.

Rob Whiteman, Chief Executive of CIPFA talked about the key themes of CIPFA's guidance on audit committees and on the annual governance statement (AGS). He commented that:

- He is worried about governance in local government – that it could slip – and he stressed the importance of audit committees to prevent that happening.

- He fears that audit committees in local government do not always carry the weight they do in other sectors.
- In terms of the AGS the key question is whether the organisation is being well governed and he stressed the importance of independent members on audit committees.
- CIPFA are to develop a financial planning and management code advising on the proper application of reserves. Allied to that CIPFA intend to publish a resilience index re the use of reserves and they will publish a list of Councils at risk of “going bust”.
- Recent events at Northants CC are causing a lot of concern and reflection about the impact that has had on the whole of local government.
- Cheaper audit doesn't necessarily mean better audit.

Caroline Gardner, Auditor General for Scotland and PSAA Board Member compared and contrasted different models of public audit. She commented that:

- She is a strong public audit proponent.
- 98% of eligible audited bodies in England opted in to using PSAA as the appointing body.
- PSAA provides a measure of independence even though audited bodies have the power to make their own auditor appointment.
- There is no single audit agency in England (following the abolition of the Audit Commission) unlike the rest of the UK. There is no public audit service in England now.
- A new Code of Audit Practice in Scotland forces auditors to reach conclusions re financial management; sustainability and value for money rather than auditors having the ‘wriggle room’ to make a conclusion about whether there are adequate arrangements in place for value for money which still happens in England.
- She sees the LAQF role as being to protect and enhance audit quality; to provide opportunities to learn from each other and to be a beacon for collaboration in local government.
- LAQF can help with the development agenda for Audit Committee members including training and development needs.

Gareth Davies, Partner Mazars LLP referred to the key issues arising in 2017/18 audits. He commented that:

- The section 114 report recently issued at Northamptonshire County Council (about financial sustainability) was the first such report issued for many years. He recommended Audit Committee members should read the report which is published on the web.

- There is increasing use of the right of electors to inspect and raise objections to items of account helped in part by the increasing use of social media.
- Key accounting issues have arisen in relation to going concern and the valuation of assets and liabilities.
- Councils appear to be looking at ways of reducing the level of revenue set aside for the repayment of borrowings. There is a need for a policy on the level of the minimum revenue provision as there are indications that Councils are becoming less prudent in this area.
- Accounting for pensions valuations are becoming more sensitive.
- Common issues arising in vfm conclusion work include financial sustainability; risk management; the governance of commercial ventures and devolution and changes in responsibilities.

John Hayes, Chief Officer of PSAA referred to PSAA progress to date and plans for the future. He commented that:

- 2017/18 audits were the last ones under transitional arrangements following the abolition of the Audit Commission.
- The transitional arrangements covered NHS audits as well as LG but Clinical Commissioning Groups and NHS Trusts have appointed their own external auditors from 2016/17.
- Small authority (Parish & Town Councils and Internal Drainage Boards) audit appointments are now overseen by another company – not PSAA.
- Grant certification work is not audit work and is not included in PSAA contracts. DWP has not yet specified what certification work it requires in respect of Housing Benefits for 2018/19. The Greater Manchester MBCs are carrying out one procurement exercise for all grant certification work across Greater Manchester.
- Contracts for audit work for 2/18/19 were let to 6 firms. After a large-scale consultation exercise audit fees for 2018/19 onwards were reduced by 23%.
- The current priorities for PSAA are a focus on audit quality; contract management; a review of PSAAs staffing structure; stakeholder relationships and feedback and the quality forum.
- As PSAA has no involvement going forward in certification work, NHS work and small audit body appointments the staffing of PSAA is likely to reduce from 12 people to around 6 people.
- PSAA is a not for profit body and any surplus funds will be distributed to audit bodies.

Question Time

- A panel of current Audit Committee Chairs drew on their experience to respond to questions from the floor.
- The questions were varied but centred around whether Councillors in local government have the necessary skills and experience to effectively scrutinize matters coming before them at Audit Committees and whether having independent members on Audit Committees with the necessary skills would be beneficial.

Clive Portman

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