



Report to Audit Committee

Meeting Date: 24 September 2021
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: TECHNICAL UPDATE AND CONSULTATION RESPONSES
Report of: Corporate Director of Finance and Resources.
Report Number: RD38/21

Purpose / Summary:

This report provides the Audit Committee with an update on technical issues and consultations on financial and auditing subjects.

Recommendations:

The Audit Committee is asked:

- (i) to note the update on Consultations and technical issues, including the Council's responses.

Tracking

Audit Committee	24th September 2021
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1. BACKGROUND

- 1.1 This report aims to provide the Audit Committee with an update on technical issues and external consultations relating to any financial or auditing matter of relevance to the Council.
- 1.2 Although the Council is notified of all consultations issued from, for example, MHCLG or CIPFA, not all consultations will be relevant and there will be occasions where the Council does not wish to respond.

2. OPEN/FORTHCOMING CONSULTATIONS

2.1 The Redmond Review – Local Audit Framework (Technical Consultation)

The Committee is reminded that at its March 2021 meeting a detailed report was presented on the outcome of the Redmond Review.

On 28 July 2021, the MHCLG published a further consultation on the following proposals as part of their response to the Redmond Review:

- A new system leader for the local audit framework.
- Proposals to strengthen audit committee arrangements within councils.
- Measures to address ongoing capacity issues on the pipeline of local auditors.
- Action to further consider local audit functions for smaller bodies

System Leadership

Questions 1-14 cover the responsibilities, governance and scope for the proposed new system leader for local audit; ARGA (Audit Reporting and Governance Authority), which, it is proposed, will replace the Financial Reporting Council. The consultation outlined various proposed functions and responsibilities for ARGAs including:

- Regulation of local audit
- Monitoring and Review of Local Audit Performance
- Code of Local Audit Practice
- Report on state of local audit

Audit Committee arrangements

The consultation also asks about proposals that would enhance the functions of local audit, including the function of Audit Committees. The proposals would see the development and production of strengthened guidance to support local authorities to manage their audit committee arrangements. This would be delivered through the production of an updated version of CIPFA's existing guidance: Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition), including the following:

- requirement for an effective committee structure, including how the independence and importance of the committee is maintained, and other matters such as size and term of membership.
- the role of independent members to bring additional knowledge and expertise and support to help them play an effective role.
- support for ensuring the views of the committee are heard, including interactions with and accountability to Full Council and raising the profile of the committee within the body.
- the importance of reporting to all those charged with governance where there are significant issues identified by the Committee (cross referenced to Recommendation 4 of the Redmond Review).
- outlining the core functions of the committee, including good governance, internal and external audit, risk management, value for money, financial reporting and internal control.
- knowledge, expertise and training for committee members, including for both existing and independent members, to ensure they are able to fulfil their functions.
- the facility for auditors to meet privately with representatives from the audit committee or council where appropriate.

The Redmond Review highlighted that there is no statutory requirement to have an Audit Committee and therefore the consultation seeks views on whether this should become a statutory requirement or alternatively, that the expectations around ensuring that local bodies have proper arrangements in place are reinforced by the assessment of the local auditor, given the NAO's new Auditor Guidance Note 03 for the new 2020 Code of Local Audit Practice already makes reference to the Audit Committee.

The consultation also proposes to amend the Accounts and Audit regulations so that Full Council should receive the Auditor's Annual Report, accompanied by a report from the Audit Committee with responses to the Auditor's Annual Report.

Auditor Training and Qualifications

The Redmond Review highlighted evidence of market stress in the supply of appropriately qualified and experienced local authority auditors. Therefore, MHCLG has established a working group to review the current guidance on entry requirements for Key Audit Partners in local audit and to consider what else is possible to ensure that firms with the capacity, skills and experience are not excluded from bidding on local audit work. There are also proposals to support the strengthening of skills and knowledgebase of the sector.

Appendix A details the questions being asked in the consultation. The consultation closed on 22 September and at the time of writing Officers are drafting responses.

2.2 Consultation on Code of Practice 2022/23

CIPFA has opened the consultation on the Code of Practice on LA Accounting in the United Kingdom 2022/23. The consultation closes on 11 October 2021.

The Code of Practice will apply to accounting periods starting on 1 April 2022. The proposed amendments in the 2022/23 Code cover the changes relating to the implementation of *IFRS16 Leases* and standards on which CIPFA/LASAAC wishes to seek stakeholder views.

The Council will be considering the implication of any proposed changes to the Code and the impact it may have on the preparation of the Accounts for 2022/23. Officers are currently assessing the implications of the consultation and will respond to the consultation by the deadline.

3. **CLOSED CONSULTATIONS**

3.1 The consultations listed below have closed and details are provided as to the Council's response.

3.2 PSAA shaping national scheme for local auditor appointments from April 2023

In June Public Sector Audit Appointments (PSAA) issued their draft prospectus on the future shaping of local auditor appointments from 2023. Local bodies have the option to arrange their own procurement, procure jointly with other bodies, or take advantage of the national collective scheme administer by PSAA. This consultation provided detail of how this national collective scheme would work. The consultation closed on 8 July and the Council's response to the consultation is at **Appendix B**.

PSAA issued their feedback on the consultation responses on 27 August 2021, and this is summarised in **Appendix B**. The new prospectus for the 2023 procurement is likely to be published in late September 2021.

4. **CONSULTATION**

None

5. **CONCLUSION AND RECOMMENDATION**

5.1 The Committee is asked to note the update on technical issues and consultations including the Council responses.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 6.1 Sound financial management is a core underpinning of all the priorities of the Council.

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Appendices
Appendix A – Local Audit Framework (Technical Consultation) Questions
Appendix B – PSAA Consultation on appointment of local auditors from 2023 – Council and PSAA responses

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS:

Legal – Any legal implications of the consultations in this report will be dealt with as and when they arise.

Finance – Contained within the report

Equality – None

Information Governance – There are no information governance implications with this report

Property Services – None

Local Audit Framework (Technical Consultation) – Consultation Questions

Question No.	Question
1	Do you agree with the proposed functions which the system leader for local audit needs to enable a joined-up response to challenges and emerging priorities across local audit? Please let us know any comments you have on the proposal.
2	Do you have any comments on the proposed functions that ARGA should have alongside its new system leader responsibilities?
3	Do you agree that the system leader should conduct a full post implementation review to assess whether changes to the Code of Audit Practice have led to more effective external audit consideration of financial resilience and value for money matters two years after its introduction, with an immediate technical review to be conducted by the NAO? Please let us know any comments you have on the proposal.
4	Do you agree with the proposals to ensure that ARGA has sufficient expertise and focus on local audit? Please let us know any comments you have on the proposals.
5	Do you agree with the proposed role and scope of the Liaison Committee? Please let us know any comments you have on the proposal.
6	Do you agree that the responsibilities set out above will enable ARGA to act as an effective system leader for local audit? Are there any other functions you think the system leader for local audit should have?
7	What is your view on the proposed statutory objective for ARGA to act as system leader for local audit? Please include any comments on the proposed wording.
8	Do you agree with the proposal that ARGA will have a responsibility to give regard to the value for money considerations set out in the Local Audit and Accountability Act 2014? Please include any comments on the proposed wording
9	Do you agree that the proposals outlined above will provide an appropriate governance mechanism to ensure that the new system leader has appropriate regard to the government's overarching policy aims without compromising its operational and regulatory independence? Please let us know any comments you have on the proposal.
10	Do you agree that ARGA's annual reporting should include detail both on the state of the local audit market, and ARGA's related activities, but also

Question No.	Question
	summarising the results of audits? Please include any views on other things you think this should include.
11	Do you agree with the proposal outlined above relating to board responsibility for local audit? Please let us know any comments you have on the proposal.
12	Do you agree that ARGAs local audit functions and responsibilities should be funded directly by MHCLG rather than a statutory levy?
13	Do you agree that ARGAs should also take on system leader responsibilities for health audit? Please let us know any comments you have on the proposal.
14	If you agree that ARGAs should assume system leader responsibilities for health audit, do you think any further measures are required to ensure that there is alignment across the broader system?
15	Do you agree with the government's proposals for maintaining the existing appointing person and opt-in arrangements for principal bodies but with strengthened governance across the system, including with the new system leader? Please let us know any comments you have on the proposal.
16	Do you agree with the proposal for strengthened audit committee guidance? Please let us know any comments you have on the proposal.
17	Do you have any views on whether reliance on auditors to comment and recommend improvement in audit committee arrangements is sufficient, or do you think the Department should take further steps towards making the committee a statutory requirement?
18	Do you agree with the proposals that auditors should be required to present an annual report to Full Council, and that the Audit Committee should also report its responses to the Auditor's report? Please let us know any comments you have on the proposal.
19	Do you have any comments on the proposals for amending Key Audit Partner guidance or addressing concerns raised about skills and training?
20	Are there other changes that might be needed to the Local Audit (Auditor Qualifications and Major Local Audit) Regulations 2014 alongside changes to the FRC's guidance on Key Audit Partners?
21	Are there other changes that we should consider that could help with improving the future pipeline of local auditor supply?
22	Do you have any comments on the proposal to require smaller bodies to publish their budget statements and variance explanations alongside the Annual Governance and Accountability Return to aid transparency for local service users?

Question No.	Question
23	is the current threshold of £6.5 million still right? If you think a different threshold would be more appropriate, please provide evidence to support this.
24	Do you have any comments on the proposal for a requirement for smaller bodies to transfer to the Category 1 authority audit regime only once the threshold has been breached for 3 years in succession?

Appendix B

PSAA Consultation on the draft prospectus for the national scheme for local auditor appointments from April 2023.

N.B. Questions 1 & 2 were responders' contact details.

Question No.	Question	Response	PSAA Response
3	Is PSAA right to prioritise the awarding of new longer-term contracts with firms, based on realistic market bid prices, mitigating the risks of a less than fully successful procurement by holding in reserve the option to extend one or more of the existing audit services contracts for up to two years if required?	Yes – Realistic market prices will demonstrate that firms are resourcing the requirements for audit accurately.	Our intention remains to continue to prioritise new longer-term contracts.
4	Is five years an appropriate term for bodies to sign up to scheme membership?	Yes – It is important to have continuity of audit firms for a period of time to enable knowledge and relationships to be built and to fully understand the client's position.	No change: adopt a five-year appointing period spanning the audits of 2023/24 to 2027/28
5	If five years with an option to extend for up to two years subject to the supplier's agreement an appropriate term for the next audit services contracts?	Yes – It is important to have continuity of audit firms for a period of time to enable knowledge and relationships to be built and to fully understand the client's position.	No change: adopt a contract duration of five years with an option to extend for up to a further two years by mutual agreement. We will seek to use the DPS to support market

Question No.	Question	Response	PSAA Response
			sustainability and address bodies' concerns regarding independence and the need to accommodate merging bodies during the second appointing period.
6	Is PSAA right to evaluate tender submissions on the basis of 80% quality and 20% price to align with market expectations and other recent public audit procurements?	Yes – Audit Quality and the work undertaken, experience and resourcing are important to ensure thorough audits are performed	No change: evaluate tender submissions on the basis an 80% weighting for the quality aspects of tender responses, including social value, and 20% weighting for price. PSAA will seek the views of the FRC to inform the development of our approach to the evaluation of quality. In due course we will also consider how we can best share details of our approach with eligible bodies.
7	Is PSAA right to seek to encourage market sustainability within the local audit market by accepting bids from firms that are currently proceeding through the local audit registration process; by accepting consortia bids which may involve an unregistered firm gaining experience by working alongside a registered firm; and by considering the	Maybe, subject to - Encouraging new entrants into the market will help build sustainability, reduce reliance on big audit firms and provide potential for smaller firms to enter the market. However, the most important aspect is that the firm awarded the contract should be knowledgeable about local government	No change: implement arrangements with a strong focus on market sustainability. PSAA will seek the support of the ICAEW to facilitate the exploratory discussions between interested experienced suppliers and potential new entrants.

Question No.	Question	Response	PSAA Response
	inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market?	finance, have experience and have capacity to deliver within the set timescales.	
8	Is PSAA's proposed approach to social value appropriate given the services to be procured will be delivered across the whole of England? Are there any alternative approaches that should be considered?	Yes – Adding a requirement to develop and recruit apprentices for future commitment to local audit seems to be reasonable.	PSAA will review its proposal including seeking the views of MHCLG and the LGA
9	Is PSAA right to carry out research and to consider setting a minimum audit fee in the next appointing period, recognising the increasing level of audit work now required and the risk that smaller scale fees may not be sufficient to cover the actual cost of the audit? What would be the key issues for PSAA to consider in the event that it opts to set a minimum fee for a Code-compliant audit?	Yes	The PSAA Board at its September meeting will consider the potential to introduce a minimum fee based on the outcome of the independent research undertaken. If a minimum fee is to be introduced, the reasoning and arrangements will be explained in the prospectus.
10	In the context of the recent NAO report, should PSAA and other market participants strive to prioritise the timeliness of audit opinions in the next appointing period? What actions should PSAA or other market participants take in order to avoid delayed opinions blighting the next period?	Yes – A large inhibitor to the delay of Opinions is audit firms having the sufficient resources to deliver the audits in the prescribed timescales.	We will take the feedback on capacity into account when designing the quality evaluation questions and seek the support and advice of the FRC. We recognise that acting alone

Question No.	Question	Response	PSAA Response
			PSAA can have limited impact on these issues. We will therefore continue to collaborate with partners and to urge a system-wide response aimed at delivering improvements.
11	Which specific benefits of the national scheme are most valuable to you? Are there other benefits we should strive to develop?	Being in an area where there are geographical barriers to recruiting a local auditor and risk not being able to procure locally due to this geography.	We will develop a series of short, single topic focused webinars during the Autumn/Winter period aimed at S151 Officers and Audit Committee Chairs with the aim of furthering understanding of PSAA's role and remit, specific areas of its work highlighted by consultation feedback and the wider local audit framework.
12	What are the key issues which will influence your decision about scheme membership for the second appointing period?	Ensuring value for money and the appointment of a competent auditor.	We will take the feedback into account when developing the detailed terms of the new audit services contracts. Importantly we will continue to communicate that PSAA is unable to address these issues on its own, highlight the challenges to other stakeholders in the local audit system and play an active role in a system-wide

Question No.	Question	Response	PSAA Response
			response aimed at delivering improvements.
13	To inform the further development of our procurement approach, please indicate whether or not you anticipate that your organisation is likely to opt into our scheme?	Yes	