

## Appendix A

### Summary of Key Findings

Below are the key findings from the review.

#### *Action to support immediate market stability*

Local External Audit arrangements - most significant finding is the lack of coherence in local audit arrangements.

- a. There appeared to be no coherence in approach to procure audit and there were serious concerns regarding effectiveness of local audit.
- b. Some of this is linked to the fee structure and a view that the cost is 25% less than it should be and as a result the quality of auditors has reduced.
- c. There is concern auditors do not have the experience or knowledge of local authorities.
- d. 40% of audits were not complete by the deadline for 2018/19.

#### *Enhancing the functioning of local audit, and the governance for responding to its findings*

Governance arrangements – question on whether the Audit Committees understand the issues to question and challenge in an effective way?

- a. There are relatively low number of independent Audit Committee members and little communication between Audit Committee and inspectors.
- b. No formal exchange of views.
- c. There seems to be no real relationship between Audit Committee and Full Council with very few reports going to Full Council.
- d. Question on the role of the 3 statutory officers in relationship to Audit – do they engage with auditor together on informal or formal basis?
- e. Internal Audit not used much by External Audit as code of practice does not require them to liaise with internal audit work although there is a feeling that they can assist.
- f. Not always the expertise in local authority finance departments in completing the accounts process.

Reporting - Current arrangements do not allow for public to understand the accounts. More can be done to improve transparency of what local authorities do.

The recommendations in the report centred on 3 aspects, namely: Local Audit arrangements, Governance and Financial Reporting.

*Consideration of System Leadership Options; Action to support immediate market stability; and Action to further consider the functioning of local audit for smaller bodies*

#### Local Audits –

- a. A new Office of Local Audit Regulation (OLAR) will be established and have responsibility for procuring, managing, overseeing and regulating local audits. This will include current responsibility fulfilled by Public Sector Audit Appointments (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC).
- b. There will be a Liaison Committee chaired by the Ministry for Housing, Communities and Local Government (MHCLG) comprising FRC, Institute of Chartered Accountants in England and Wales (ICAW), NAO, Chartered Institute for Public Finance and Accountancy (CIPFA), Local Government association (LGA) and authority representatives, as well as Probation, Home Office and Audit Partners. This would meet quarterly and provide link to the regulator and would provide facility for feedback and commentary in how the local audits are done.
- c. The OLAR could impose sanctions where there are significant issues in a local authority, e.g. if financial resilience issues where MHCLG are needed to intervene.
- d. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- e. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified.

*Support Market stability and Enhancing the functioning of local audit, and the governance for responding to its findings*

Governance –

- a. At least 1, suitably qualified, independent member will be required on each Audit Committee.
- b. There will be a requirement for the 3 statutory officers to meet with External Audit annually.
- c. All Audit Committee members will have a requirement to be trained.
- d. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- e. An annual report to be presented to first Full Council meeting after 30 September from the External Auditor, irrespective of whether the accounts have been certified.
- f. Auditors must have skills and training but also needs to be in place for local authority finance staff.
- g. The need for an induction/training mechanism for new s151 Officers on Final Accounts.
- h. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

*Improving transparency of local authorities' accounts to the public*

Financial Reporting –

- a. A new standardised statement of services and costs will be required to enable a comparison of budget setting Council Tax information to outturn.
- b. CIPFA/ Local Authority (Scotland) Accounts Advisory Committee (LASAAC) be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.