**Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England**

**Response from the Society of District Council Treasurers**

**Summary**

The Society welcomes the opportunity to comment on the above review. We have answered the detailed questions below but would also highlight the following key points:

* Audit work need to be refocussed onto the important issues – currently there is too much focus and time spent on technical accounting issues (particularly capital valuations for example) and not enough focus on resilience.
* There is little discussion on the auditor VFM conclusion with it appearing in some cases to be little more than a ‘desktop’ exercise and so it’s use is questionable (albeit there is no desire to go back to any Use of Resources type exercise).
* The complexity, transparency and understanding of accounts (by all stakeholders) is an issue and has been since the introduction of IFRS standards. The simplification of the accounts has been discussed many times over the past few years with little progress to date. SDCT would urge that this is revisited in a meaningful way.
* The effectiveness of Audit Committee is questionable. This is largely because of the ‘impenetrability’ of the accounts.
* The CFO/S151 is not always at the top table and in a political climate their voice is not always welcome or heard. This links to increasing ethical pressures on the CFO.
* It would be considered a backward step if we reverse the Statement of Accounts deadlines and take more time over the closure process. It needs to be as short and sharp as possible to enable the focus to be on more important resilience / budget issues.
* It is recognised that the new deadlines place further pressure on the audit staff. The quality and experience of audit staff is an issue.

The strategic issue of the users of the account is the subject of chapter 1. This is a matter that is unlikely to be resolved by any refocussing of audit duties or responsibilities. The technically complex nature of published financial information is likely to continue to deter many potential users. For there to be a more general understanding of accounts they need to be less complex. This is an issue that requires consideration in a wider context. The current consultation needs to concentrate on the audit adding value to the production of the financial statements.

With regard to the technical issues raised by the consultation paper in chapters 4 to 9 there is an underlying trend suggesting that the scope of external audit work could be extended. We are not opposed to the principle of other areas being subject to audit review, but we are concerned about the cost and manpower implications for local authorities, and about the quality of the audit work if there are not corresponding reductions in other areas of the audit. What needs to be demonstrated if there is any extension in the scope of the audit is what benefits will be derived rather than just auditing more areas for the sake of it. We sense that there is a view from auditors that all aspects of local government operation should be subject to external scrutiny which we do not feel is either appropriate or necessary.

**Chapter 1 Definitions of Audit and Users of the Accounts**

**Question 1 – Who, in your opinion, are the primary users for local authority accounts?**

**Response –** Residents, customers and funding providers are the primary users for local authority accounts. However, the current Statement of Accounts and the accounting code that sits behind them make them impenetrable for many of these users and there is little active interest from these groups. The complexity and lack of understandability of the statutory accounts discourages engagement and users of the accounts are largely limited to auditors and other regulatory bodies.

**Question 2 – Who are the other users of local authority accounts? Are any of these other users of accounts particularly important?**

**Response** – In our experienceother users of the accounts are partner organisations and the media, but this is limited and sporadic. As already stated in Q1, the complexity of local authority accounts makes it difficult for many stakeholders to take an active interest.

**Question 3 – What level of financial literacy/familiarity with accounts and audit is it reasonable to expect the primary users of accounts to have and what implications does this have for the information presented in accounts and/or the information that should be subject to external audit?**

**Response –** The statutory accounts as they are currently presented are too complex and it is unreasonable to expect users who do not have any technical financial training to understand and interpret them. As an example, the amount of adjustments required in order to understand the actual budget position of any local authority in year (i.e. the ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS note) and the Financial Instruments notes. Local residents will therefore generally be at a disadvantage when trying to use the accounts because of the complexity of technical accounting adjustments. Legislators, regulators and other larger organisations will have access to financial expertise which should enable them to extract the information they require.

**Question 4 – Does the external audit process cover the right things given the interests of the primary users of the accounts/is the scope wide enough?**

**Response –** The contents of the financial statements are primarily designed to meet statutory requirements and ensure that accounting standards have been adhered to. The interests of users of the accounts focuses on how resources have been used to provide services and if Value for Money is being achieved. There is too much focus on technical accounting adjustments. The financial statements have been made more relevant to users by the introduction of the Narrative Report, although perversely the auditor is not required to give an opinion of this part of the financial statements. We are not convinced that the current audit process necessarily meets the requirements of users as there is an emphasis on valuation rather than on the outcome of expenditure which detracts from an authority’s financial performance.

**Question 5 – Is the going concern opinion meaningful when assessing local authority resilience? If not, what should replace it?**

**Response –** In our view the Going Concern opinion is not meaningful. A better assessment would be the local authorities’ ability to meet future commitments given their existing funding levels, together with an assessment of the adequacy of reserves and the authorities’ financial resilience. In this context the auditor will need to consider the medium-term financial strategy. This could be a part of the Value for Money conclusion.

**Chapter 2 The Expectation Gap**

**Question 6 – In your opinion what should an external audit of a set of local authority financial statements cover?**

**Response –** it should provide an assurance for the readers of the financial statements that the figures contained are accurate, that the disclosures have been made in accordance with either legislation or accepted accounting practice, that the accounting policies underlying the financial statements are reasonable and that any significant matters have been brought to the readers’ attention by the local authority. It should also provide an overall assessment of financial resilience and value for money. There should also be a reasonable assessment of materiality in order to focus the reader’s attention on key issues.

**Question 7 – In your opinion what should the scope of the external auditor’s value for money opinion be?**

**Response** - The value for money opinion should confirm that the authority has used resources in accordance with the corporate objectives and has secured economy, efficiency and effectiveness in the use of those resources. It should also confirm that a robust Medium Term Financial Plan is in place which gives assurance over future sustainability and resilience.

**Question 8 – What is your view on the scope of an external audit engagement as described in chapters 1 and 2 of this call for views? If it is different from your expectations, does this have implications for the reliance you place on external audit work?**

**Response –** Local authority’s expectations are conditioned by the existing situation which is compliance with regulation and accounting practices. A user of the financial statements would be better placed to comment on expectations. Any increase in the scope of the audit will have resource implications, both monetary and staff time, for the local authority, unless there was a corresponding reduction in the scope in another area, or that there were perceptible benefits from the increase in scope.

**Question 9 – Should the external audit engagement be extended? If so, which additional areas/matters are most important for external auditors to look at? What would be the cost implications of extending the engagement to the areas/matters you consider to be most important be?**

**Response –** We would be opposed to the extension of the external audit engagement both in terms of the cost (additional fees and staff time in dealing with the issue) and because of the potential delay in completing the audit. We would also query whether an extension would lead to a diminution in the quality of the audit if the auditor’s resources were already stretched. We consider that a refocussing of the audit would be a more practicable alternative with audit resources concentrated on the issues identified by the users of financial statements.

**Chapter 3 – Audit and Wider Assurance**

**Question 10- Should the scope of the vfm opinion be expanded to explicitly require assessment of the systems in place to support the preparation of some or all of the reports that statute requires to be presented to full Council. If you do, which reports should be within the scope of the external vfm engagement? If not, should these be assessed through another form of external engagement? If you believe that the vfm opinion should be extended to cover these reports will there be implications for the timing of audit work or auditor reporting?**

**Response –** The cost of extending the engagements to cover some or all of these could be prohibitive for local government as a whole and we doubt whether the organisations that undertake external audit would have the capacity to cope. There surely should be some trust that elected members are capable of self-regulation and that the role of the S151 is a professional one which must abide by the standards set out by CIPFA as the professional body. The most significant transactions are subject to the approval of full Council and will be set out in the Financial and Contract Procedure rules of each Council. If it is deemed necessary to extend the scope, then this should be on the basis of a risk assessment rather than covering all areas. It’s also worth noting that in many authorities, Internal Audit carry out specific VFM reviews and always consider VFM issues in all other audits that they complete.  Internal Audit also confirm the accuracy of the information reported to elected members e.g. treasury management reports to Audit and Standards

**Question 11 – Should external auditors be required to engage with Inspectorates looking at aspects of local authority service delivery? If you believe that this engagement should happen, how frequent should such engagement be and what would be the purpose of doing so?**

**Response** – Again we do not believe this is necessary. Effectively you would be imposing a second inspection regime. We understand that the objectives of the two regimes would be slightly different but not sufficiently so to warrant all the duplication of work with its attendant costs.

**Chapter 4 – The Governance Framework for the Audit System**

**Question 12 – Does the current procurement process for local authority audit drive the right balance between cost reduction, quality of work, volume of external audit hours and mix of staff undertaking audit engagements?**

**Response** – It is perhaps too early to make an assessment on this. Although the Audit Commission was finally dissolved in 2015, the external audit contracts awarded during the three years between 2015/16 and 2017/18 were all let through the Audit Commission prior to its demise. The first contracts let under the new arrangements were therefore for 2018/19. Audit costs have reduced considerably since the abolition of the Audit Commission but SDCT would question whether the fees are now too low to enable the audit bodies to cover all of the requirements of the Code within the required timescales. If fees are to be held at the same lower cost a the work undertaken may need to be reviewed to focus on higher priority/risk areas. During 2018/19 audits many of our members have experienced delays with audits (both statutory accounts and DWP subsidy audits) and little continuity of audit staff. If audit fees are to remain low consideration needs to be given to reducing the complexity of local authority accounts and streamlining the content so that audit work can focus on the issues that matter most to users of the accounts (for example, less focus on querying asset values when the authority has already used a qualified valuer to provide valuations).

**Question 13 – How should the regulators ensure that audit firms and responsible individuals have the skills, experience and knowledge to deliver high quality financial and vfm audits, whilst ensuring that the barriers to entry do not get too high?**

**Response** – This should be dealt with at tender stage and including in the specification and contracts with audit firms. There should be some formal contractual requirements in relation to skills, experience and knowledge of staff. Future assessments of firms’ suitability should be made against a number of measurable quality indicators which should be made public. As for barriers to entry to the market, the quality of the audit should not be compromised by market considerations. Firms undertaking public sector audits must be capable of providing a high-quality product or the whole arrangement will fall into disrepute.

**Question 14 – What metrics should regulators use when assessing whether financial and vfm audits are delivered to an appropriate level of quality?**

**Response** –

It is not easy to suggest SMART metrics here. The ‘Internal Audit Performance Measurement’ document produced by the Chartered Institute of Internal Auditors does make some useful suggestions.

Some possible metrics could include the following:

**Based on stakeholder experience:**

* Degree of stakeholder satisfaction.

**Based on the progress of the audit:**

* Whether statutory audit deadlines have been achieved
* Amount of time spent on audits compared with the planned time.
* The skill of the auditor in handling key accounting and audit judgements.
* Was the cost of the audit reasonable?
* Any cost savings achieved as part of VFM reviews
* Quality and accuracy of the findings

**Based on the quality of the auditor:**

* The degree to which auditor’s recommendations are implemented.
* Technical skills of auditors (based on either qualifications or experience).

**Question 15 – Do you agree with the Independent Review of the Financial Reporting Council’s findings and recommendations; and why do you agree/not agree? If you agree with the recommendations do you think the single regulatory body should be the successor body to the FRC or a sector specific entity? If you do not agree with the recommendations are there other changes you would make to the regulatory framework for local authority audit?**

**Response –** The Council has reservations about the recommendations proposed by the Financial Reporting Council. Having disbanded the Audit Commission as recently as 2015 and split its duties across a number of organisations it seems unusual to be lobbying for an effective return to something resembling the previous arrangement. The reservations listed may not be without foundation but unfortunately also seemed designed to increase the influence of the Financial Reporting Council.

**Chapter 5 – Audit Product and Quality**

**Question 16 – Do external audit firms have enough understanding of the local authority regulatory framework to focus on the right areas? How do they/should they demonstrate this? Who should regulate the work?**

**Response –** Under the revised arrangements following the disbanding of the Audit Commission the Council had new external auditors for the 2018/19 accounts. The performance of the auditors has not been satisfactory. Inadequate staffing both in terms of numbers and experience meant that the audit was not concluded on time, and there were issues around the auditors’ understanding of local government as a whole and of specific services. Three issues were of particular concern;

* Council staff were having to advise junior audit staff in local government accounting.
* The auditors adopted an entrenched stance about the technical treatments that they would accept for example on valuations.
* Work appeared to be carried out to meet the requirements of the Financial Reporting Council rather than because it was necessary for compliance with the Audit Code of Practice.

From this we can only conclude that the auditors did not have enough understanding of the local government regulatory framework. One of the advantages of the Audit Commission was that the staff specialised in public sector work and this expertise has now been diluted. There needs to be a change of approach to the audit with greater emphasis placed on the interim audit and in dealing with the potentially most significant issues early in the process.

It is also worth noting that some external auditors fail to understand the difference between district, met and county councils so ask question that are not relevant e.g. about educational issues and schools in a district.  The Society would suggest that if an external auditor is going to specialise in public sector work then they should receive some specific training on local government so that they have a better understanding.

The auditors should demonstrate their knowledge and understanding in preparatory meetings with the Council and by providing a list of the staff they will be using on the audit showing their qualifications and experience.

Responsibility for the quality of external auditors currently rests with the Financial Reporting Council. It would seem reasonable for this arrangement to continue although it should have the same regulatory powers over local authority audits as it does over company audits.

**Question 17 – Do auditing standards have a positive impact on the quality of local authority financial audits?**

**Response –** The auditing standards provide a consistent basis for the delivery of the audit and set expectations around the content and requirements of the audit.

**Question 18 – Do audit firms have sufficient resources to deliver high quality and timely audits? How is consistency and quality maintained in external audit work? To what extent is there consistency in audit teams year on year? What can be done to ensure more consistency between firms?**

**Response –** Based on the experience of the 2018/19 audits, firms clearly did not have sufficient resources to complete audits on time. There are some authorities that still have not had their 2018/19 audits completed and do not expect to have them completed until January 2020. Consistency varies. There are district councils who have been given the same audit teams for a number of years but others who have a high degree of turnover and also significant use of trainee auditors. The number of the 2018/19 local authority audits that were not completed on time rose sharply from the previous year and this is main issue that must be addressed.

**Question 19 – To what extent are senior audit staff, particularly the responsible individual signing the audit certificate, visibly involved in audit work? Who do senior audit staff meet with?**

**Response –** The lead auditor meets with the S.151 officer (although not regularly – perhaps 3-4 times per year, including the meeting at the close of the audit. The audit manager meets with Finance colleagues. Neither the lead auditor nor audit manager had any specific discussion with the S151 officer to discuss the VFM conclusion this year (evidence from one specific Borough Council).

**Question 20 – Should external auditors consider financial resilience as a key factor when designing their vfm work programme? If so, what factors do they/should they consider as indicative of financial resilience?**

**Response –** We believe that external auditors should assess the financial resilience of local authorities, including a review of the Medium term Financial Strategy and level of reserves. CIPFA have published a principle based Financial Management Code, adherence to which is mandatory from April 2020 and external auditors should assess the degree to which local authorities have complied with this. CIPFA has also produced a Financial Resilience Index made up but the Society would stress very strongly that indicators must be taken in the correct context and taking into account wider factors behind local authority financial decision making.

**Question 21 – Does the Code of Audit Practice provide enough guidance on how much work needs to be done to support the vfm opinion? If not, what should it cover?**

**Response -** Part of the National Audit Office consultation on the Audit Code of Practice is for amendments to be made on the guidance which sets out a new approach in this area, putting a sharper focus on vfm and an expectation of clearer and more timely reporting. We are therefore not clear whether, in this consultation, we are supposed to be commenting on the Audit Code of Practice as it stands, or on the proposed amendments. Assuming that it is the proposals that it is the latter on which we are being asked to comment then we do not have any objection in principle to any additional value for money work on financial sustainability, governance and improving economy, efficiency and effectiveness. However, we would like assurance that the additional costs will be matched by positive benefits to the authority.

**Question 22 – Do auditing standards provide appropriate guidance on quality standards for vfm audits? If not, is guidance needed and should it be included in the Audit Code of Practice or elsewhere?**

**Response** – The Audit Code of Practice is underpinned by adherence to International Standard on Quality Control 1 – quality control for firms that perform audits and reviews of financial statements and other assurance and related services. This is a comprehensive document which the Council believe contains sufficient guidance to ensure the quality of the work undertaken. The bigger issue is the priority and time that is allocated to the VFM compared to the audit of the financial statements.

**Question 23 – What is the current relationship between external and internal audit? How should the relationship be developed to add most value to local authorities and local residents?**

**Response –** Currently the Audit code and standards do not allow External Audit to place reliance on the work of Internal Audit. The standards now require External Audit to do a certain amount of work in all financial areas regardless of whether Internal Audit have done any work. What was the ‘managed audit approach’ has now disappeared.  The disadvantage of this is that there will be some duplication of effort with External and Internal Audit covering similar areas of work. However, the advantage is that Internal Audit have full control over the content of the audit plan, as previously External Audit dictated the work that they expected Internal Audit to do in the key financial systems.

The relationship should be developed to ensure that there is effective and regular communication between internal and external audit. This can be facilitated by;

* Discussions at an appropriate level throughout the year.
* Full and prompt access to internal audit reports by external audit.
* Full and prompt access to the internal audit plan, audit files and testing.
* Management facilitating communication between the two.
* Co-ordinated approach to the timing of work

**Question 24 – What should happen when a regulator finds a local authority audit has not met quality standards? Where should the balance between ensuring effective enforcement action against auditors and maintaining participants in the audit market lie?**

**Response –** As we have set out in our response to question 13 the quality of a local authority audit should never be compromised by considerations of maintaining participants in the market. If the private sector cannot meet the standards required then local authority audits should be carried out or more strongly regulated by a body that is run by central government specifically for the public sector.

**Chapter 6 – Auditor Reporting**

**Question 25 – do you think that the format of the vfm opinion provides useful information? If not, what would you like it to cover?**

**Response –** The format of the VFM opinion as it stands is satisfactory.

**Question 26 – Do you think the vfm opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or similar opinion from another inspectorate?**

**Response –** We do not think that it is reasonable to qualify the vfm opinion solely because of one inadequate rating from an inspectorate. The NAO, in their consultation on the Code of Audit Practice, appear to recognise this as they wish to move towards separate commentary on each of the criteria that comprise the vfm opinion although this will be dependent upon the outcome of the consultation on the Audit Code of Practice

**Question 27 – Do you think that the vfm opinion is presented at the right point in a local authority’s annual financial management and budgeting cycle? If not, when would be most useful?**

**Response –** Yes, the timing is appropriate as it comes at the early stage of the budget setting process for the following financial year (assuming that the audit is delivered to the planned timetable)

**Question 28 – Where auditors have identified significant issues, audit certificates and reports have often been delayed. Why do you think this is and can changes be made to the framework to encourage earlier reporting of significant issues.**

**Response –** We assume that the delay is a result of discussions between the client and the auditor in order to resolve the issues but really each case would need to be looked at individually which we are unable to do. Alerting the client to potential significant issues as early as possible thereby giving a longer period to try and resolve matters would help, as too would prioritising items that may potentially lead to differences of opinion with the client for the start of the audit.

In some cases the delay can be down to audit resources. As an example from one of our members, objections from **2016/17 accounts** have not yet been resolved. The auditor has confirmed that this is due to their resource issues.

**Question 29 – In your view what sort of issues should Public Interest Reports be used to highlight?**

**Response –** The Public Interest Reports should highlight issues such as:

* Governance arrangements including legal issues
* Expenditure that is not resulting in providing services legally, or efficiently or effectively
* Management shortcomings

**Question 30 – Statistics demonstrate that very few Public Interest Reports and Statutory Recommendations have been issued. Why do you think this is? Does it indicate an issue with the framework or common behaviours? If you think this is an issue what can be done to incentivise more frequent and timely reporting of significant issues?**

**Response –** It could indicate that there is nothing significantly wrong with the way in which local authorities are being run and so there is not the need for these reports. The people best placed to offer an explanation will be the external auditors themselves.

If there is an issue the lack of structure around the issuing of Public Interest Reports needs to be remedied. The first notification that there is a matter that could potentially lead to a Public Interest Report is the ISA 260 Report to management or objections raised during the open period. Beyond that report however there is no set procedure to ensure that any action is taken and the judgement as to whether to take matters further is at the discretion of the auditor. If there was a more formalised process whereby responses to the ISA 260 had to be made with sanctions available to the auditor for non-compliance, then this would help.

**Question 31- Does a publication summarising the results of local authority audits add value? If so, who should publish it and what information would they need to have access to in order to perform this function effectively?**

**Response –** This is difficult to answer without understanding more around the content and purpose of the report. The danger of publishing summarised information for all local authorities is that comparisons will be made between them which leads on to league tables, which we wish to avoid.

**Chapter 7 – The Framework for Responding to Audit Findings**

**Question 32 – To whom should external auditors present audit reports and findings; is it the audit committee, to full council or equivalent or another committee? If findings are not presented to full council or equivalent what information (if any) should full council or equivalent receive?**

**Response –** As there is no standard model of local government in England it is difficult to prescribe a named committee to which audit reports should be addressed. Ultimately responsibility for consideration of audit findings should rest with the relevant committee determined by the individual authority.

**Question 33 – In your authority what is the membership of the audit committee and which officers typically attend.**

**Response** – As this is a response on behalf of circa 200 district councils it is not possible to summarise the arrangements for all members.

Two examples are:

Council A - Monitoring and Audit Committee7 members (4 ruling group, 3 others)

Council B (currently no overall control) – Audit and Standards – 11 members (5 of the controlling group, 5 from the main opposition and one coopted member).

Officers – Member of Strategic Management Team, Head of Resources (S.151 Officer), Group Accountant (Deputy S.151 Officer), relevant Head of Service depending upon the topics discussed.

We would add here that it can be difficult to ‘recruit’ Council members to this committee due to the technical nature of much of the work programme. It has also proved difficult to train members of the Committee thoroughly enough to give them sufficient knowledge to be able to scrutinise the accounts and add value to the process.

**Question 34 – How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates? What should the external auditors do if recommendations are not being implemented?**

**Response** – Any decisions made by the relevant committee or full council to implement recommendations should be reported back as progress to future meetings of that committee. Failure to implement agreed action should be reported back to that committee or ultimately to full council.

As an example, one authority takes a half-yearly report to the Audit and Standards Committee which shows recommendations made from recent audits but also updates from follow-up audits which review how recommendations have been implemented. This authority also has a Corporate Governance Group which monitors actions and recommendations from the Annual Governance Statement.

**Question 35 – Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports? If so should that responsibility sit with MHCLG, the sector specific oversight body recommended by the Independent Review of the Financial Reporting Council or another body?**

**Response –** We do not believe that an external monitoring body is necessary. This will add a further layer to the inspection regime and could result in considerably increased workload for local authorities in continually updating returns to show progress or to explain missed deadlines. We are not sure what sanctions such a monitoring body would require. Further, the contract for local inspection is between the external auditor and the members of the reported body (see response to question 4 above), and responsibility for implementation should rest with the latter, and it is this that needs addressing rather than a further layer being added to the process.

**Chapter 8 – The Financial Reporting Framework**

**Question 36 – Do local authority accounts allow the user to understand an authority’s financial performance and its financial resilience? If not how could they be revised to be more understandable? What information could be presented to enable users of the accounts to understand whether the financial position of a specific local authority is getting better or worse?**

**Response –** We do not believe that thefinancial statements as they are currently presented help the user to understand an authority’s financial performance. This information is made more explicit in the Narrative Report, which is also more understandable to the lay reader. The difference between the Comprehensive Income and Expenditure Statement and the actual financial position of the authority is still difficult to understand, especially where there are adjustments such as annual leave untaken which does not bear any significant implications for a local authority’s financial position. Information on financial resilience, if measured in terms of the level of reserves, is more apparent. It is difficult to see how the financial information could be made any more understandable given the Government’s insistence that the statements must be IFRS compliant. A simple alternative could be to present the information in a separate summarised document which just extracted the key measures, such as past performance on the delivery of budgets. However, this would bring further work to already stretched finance teams. SDCT would strongly urge CIPFA and MHCLG to undertake a meaningful review of the Statement of Accounts and IFRS compliance with a view to reducing the size and complexity of them.

**Question 37 – The UK Government is committed to maintaining IFRS based accounting for the UK public sector. Given this how would you recommend resolving the mismatch between the accruals and funding basis to improve the understandability of local authority accounts?**

**Response –** In our opinion having a statement that takes the reader through the stages to get from an accruals basis to a funding basis is likely to be confusing. It would be preferable simply to have a statement that shows the reader the basic information on expenditure compared to budget with some explanation of significant variances. Similarly, a further statement showing the level of reserves and commitments for future years and setting these in the context of net expenditure and Medium-Term Financial Strategy implications.

**Question 38 – Do you think that summary financial information should be reported in the annual report section of the accounts? If so, on what basis should this information be covered by the financial audit opinion?**

**Response –** We are assuming thatby the annual report you mean the Narrative Report. If this is not the case, then not all authorities produce a traditional annual report and so requiring such information to be included in an annual report would not be effective. Summary financial information is already included within the Narrative Report section of the financial statements. Unfortunately, the Narrative Report is less prescribed than the other parts of the financial statements and it may then prove difficult for the auditor to include this within the financial opinion.

**Question 39 – If you think that the summary financial information should be reported in the annual report section of the accounts, should it be presented with performance information? If so, what performance information would be of most interest to stakeholders?**

**Response** – Again we are assuming that this refers to the Narrative Report. There is a performance measures section within the Narrative Report, the contents of which are prescribed. We do not believe that summary financial information should be included with the performance information as this is largely operational data comparing actual performance with targets. This layout is unsuitable for summarised financial information. This is sufficiently important to warrant a section on its own.

**Chapter 9 – Other Issues**

**Question 40 – For larger authorities does the inspection and objection regime allow residents to hold their council to account in an effective manner? If not, how should the regime be modified?**

**Response -** We believe that the objection regime is an effective mechanism because it allows each individual resident to raise queries, rather than requiring a certain number of residents to make a joint objection. It is also a straightforward process for someone to make an objection. Local democracy operating at an individual level. We do not think the regime requires any modification, but we do believe that the auditor must exercise a large degree of discretion in determining whether objections are genuine or vexatious. We would make the point that sometimes auditors lack resources to resolve objections in a timely manner – such as the example already given where 2016/17 objections have not yet been completed.

**Question 41 –** **Is more guidance needed to help auditors assess the impact of changes to common business models? If so, is this guidance needed to support the finance audit, the vfm or both?**

**Response** – There still does seem to be some confusion around joint working arrangements and local authority companies in terms of their powers, legal responsibilities and the relationship between the various parties. Some definitive cross-sector guidance would be beneficial.

**Question 42 – Is the financial reporting and audit framework for larger category 2 authorities appropriate? If not, what additional information should be subject to audit / assurance and what would be the cost implications of this?**

**Response** – In line with our responses to questions 10 and 11 we do not favour any further extension of the scope of the external audit mainly on cost grounds.

**Question 43** – **For smaller authorities does the inspection and objection regime allow residents to hold their council to account in an effective manner and is the cost of processing and responding to objections proportionate? If not, how should the regime be modified?**

**Response** – Although the objection regime is an effective means of allowing residents to hold their council to account it can lead to disproportionately high costs for the council. The auditor should bear this in mind and perhaps exercise more discretion as to which objections to pursue. The possibility of splitting the cost between the auditor and the council might help in this context.