

**Society of District Council Treasurers**

**Response to MHCLG consultation on the “The Local Audit Framework”**

**Introduction**

The Society of District Council Treasurers (SDCT) was formed in 1974 and represents the 181 district council finance functions in England. The Society provides a forum for members to share expertise on financial issues affecting district authorities. It also enables districts to speak with a united voice; as a Treasurers’ Society it is recognised as a key local government stakeholder by central government and the Local Government Association.

**General Comments**

The SCDT welcomes the opportunity to comment on the Local Audit Framework.

There are still fundamental concerns from local authorities around audit arrangements, such as audit requirements, the regulatory framework in which audits are undertaken and accounting requirements.

Whilst we completely agree that the current system is broken, what the Redmond Review failed to do, was set a clear direction in terms of the focus of Local Government Audit. The timing and resourcing of audits is key, but without a fundamental review of the focus, there will continue to be pressures both on audit firms and councils alike, in delivering accounts and quality audits which truly represent the needs of the stakeholders.

A move to international accounting standards was the right approach, although due to the statutory overrides in place for the impact of items like valuations, it brings into question why this, along with pensions, tends to be the main focus of the audit, taking significant and annually increasing officer and auditor time, in addition to increasing audit fees and the demands on the appointed professional valuers of councils, in turn also increasing costs.

The most important factors for stakeholders are financial sustainability, lawful expenditure, adequacy of reserves and value for money. It is true there for some authorities which through commercial strategy, have heighten the need for attention on valuations and risks, but these should be considered as part of the sustainability of a council, along with specific disclosure requirements in relation to commercial activities.

Whilst the consultation recognises the challenges of previously disparate functions, it fails in some areas to be specific on what its aims are by bringing these functions together. We hope that by bringing together these functions, ARGA will take a fundamental lead in changing the focus of local audit should the proposals proceed.

**Consultation Response Questions**

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?**

*We agree with the grouping of the functions that are proposed for the system leader. We believe this will bring together areas which have previously been bound by organisation aims and objectives, which have prevented the opportunity for real change. It is hoped that by bringing such functions together, a fundamental review can be undertaken on the role, responsibilities and focus of local audit.*

*ARGA will need a strong role to align the code of local audit local authority reporting requirements with the requirements of local authority accounting requirements, taking into consideration the true challenges faced by the wrong focus being placed on the creation and audit of accounts.*

1. **Do you have any comments on the proposed functions that ARGA should have alongside its new system leader responsibilities?**

*We agree with the proposals. In response to other functions carried out currently by the NAO, we believe aspects such as the running and participating with local audit firms should continue, along with engaging with expert advisors in relation to code setting responsibilities and support to local audit firms. We understand the appointment of auditors will be delivered by PSAA to avoid conflict of interest and note that there are clear links through MCHLG and the Liaison Committee to ensure the direction of local audit is well communicated to enable procurement activities to be undertaken.*

1. **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?**

*We agree with these proposals, although recognise the demands on audit firms in the delivery of enhanced narrative reports. It is important to adequately assess the impact of this change following implementation, which a view to remove or adapt the change should it not be deemed to have added value to the audit and transparency process.*

1. **Do you agree with the proposals to ensure that ARGA has sufficient expertise and focus on local audit?**

*We consider this a fundamental factor to the success of ARGA. Without a dedicated unit with detailed expertise and focus, the proposals would fail.*

*Engagement networks with audited bodies and audit firms are also fundamental to the success of the proposals.*

*Recent case law also means that there are no restrictions to which an elector can request information as part of the inspection of accounts process. This undermines the freedom of information act where requests can be rejected on the basis of being excessive of vexatious, adding further pressures to resources and audit firms. We would expect that matters such as this could be raised and resoled through the engagement networks and/or the Liaison Committee.*

1. **Do you agree with the proposed role and scope of the Liaison Committee?**

*We agree with the role and scope of the Liaison Committee. Bringing together the suggested parties will ensure alignment of direction and codes of practice, along with ensuring risks are identified and managed.*

*The Liaison Committee will need a strong direction of ensuring that change is driven into accounting requirements, supported by CIPFA-LASAAC. A good example is the recommendation in the Redmond Review to introduce a new summary statement presented alongside the IFRS accounts to enhance usefulness, understandability and transparency of accounts. The Expenditure and Funding Analysis introduced in 2016/17 was introduced for this very purpose, which added additional demands on local authorities and increased requirements on auditors. Should a new summary statement need to be produced, there must be a fundamental review of current requirements first, both ARGA and the Liaison Committee must recognise this for the system to be fixed.*

1. **Do you agree that the responsibilities set out 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?**

*Subject to the comments made in this consultation response specifically in relation to ensuring the focus of local audit and local reporting is reviewed, we agree the proposals will ensure there is an effective leader for local audit and have no other functions we believe should be added to the role of ARGA.*

1. **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.**

*We agree that the text “System leader for local audit objective: to ensure the local audit system operates effectively” be included as a statutory objective for ARGA, and have no comments on the proposed wording.*

1. **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.**

*We agree that the text “For local audit, also having regard to the requirement of the Local Audit and Accountability Act 2014 that an audit of a relevant authority (referred to in the Act as ‘local audit’) includes a value for money arrangements commentary” be included as a responsibly for ARGA, and have no comments on the proposed wording.*

*This should be subject to review in line with question three of the consultation to ensure that the requirement is not overly burdensome on local audit firms without demonstrating added value.*

1. **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?**

*We agree with these proposals. We fully support the Remit letter being made a public document, along with the response to the letter that ARGA would be required to publish.*

1. **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 summarising the results of audits?**

*We agree that ARGA should report on areas such as the oversight of auditors, regulatory activities and importantly the performance of the regulators functions. This will ensure that there is adequate scrutiny of the performance and success of the new regulator.*

*We also agree that the report should include a summary of results of local audits, as this will help to assess the success of the Redmond Review and these proposals. It is however important not to return to what was widely viewed by the sector as a league table of authorities that had or had not completed their accounts and audit. The summary should provide high level statistics along with commentary for areas where outcomes are not as expected, rather than a list of authorities. This should be accompanied with commentary on how any issues identified will be addressed.*

1. **Do you agree with the proposal outlined above relating to board responsibility for local audit?**

*We agree with the recommendations for board appointments and responsibilities. We strongly support the proposal that a nominated board member will have responsibility for local audit and it is crucial that this member have strong skills, knowledge and experience of local audit.*

1. **Do you agree that ARGA’s local audit functions and responsibilities should be funded directly by MHCLG rather than a statutory levy?**

*We support this recommendation. It fairly recognises the pressures already faced by local council if the levy were to be charged to local bodies and recognises the additional barriers this would add to the market if it were borne by auditors.*

1. **Question not relevant to District Councils**
2. **Question not relevant to District Councils**
3. **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?**

*We agree with these proposals, and have provided a response to PSAA in relation to the procurement of local audit contracts from 2023/24.*

1. **Do you agree with the proposal for strengthened audit committee guidance?**

*We support additional guidance in this area, and the majority of the points listed in the consultation are supported.*

*However, we must stress the requirement for independent membership of the Audit Committee will be challenging and is not an aspect supported by many of our members due to the difficulties in attracting suitable candidates.*

*More clarity is required on the point suggested “the facility for auditors to meet privately with representatives from the audit committee or council where appropriate”. It would not be appropriate for these discussions to take place without officer involvement, particularly in the form of the Section 151 Officer and/or Monitoring Officer dependant on the subject matter. If this is suggested as an exempt meeting for which public would not have access, whilst potentially burdensome, it is generally supported. If such meetings would exclude statutory officers, this proposal would not be supported.*

1. **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?**

*We would not support MHCLG taking steps to make the committee a statutory requirement. Whilst many of our members have an Audit Committee, it should be for each authority to determine its governance arrangements around good governance, internal and external audit, risk management, value for money, financial reporting and internal control.*

*We would support the alternative proposal that the expectations around ensuring that local bodies have proper arrangements in place are reinforced by the assessment of the local auditor who have the adequate knowledge and skills to make such an assessment.*

1. **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?**

*We do not support these proposals.*

*Whilst we recognise there have in some cases some quite serious matters that had not been passed to Full Council when first presented to the Audit Committee. However, we would suggest that the improved guidance for Audit Committees, along with other changes such as an independent member on the committee, would address such issues.*

*The auditors report is published on council websites and members have opportunity to call in a matter for debate, or to raise questions and motions on the report at Full Council.*

*It is also important to note the role of statutory officers in such matters, who can themselves refer a matter to Full Council should a matter be judged to be serious in matter.*

*An alternative approach would be to allow auditors to bring their report to Full Council should a matter be considered serious in nature to which statutory officer and the Audit Committee have not adequately responded to or worthy of Council attention.*

1. **Do you have any comments on the proposals for amending Key Audit Partner guidance or addressing concerns raised about skills and training?**

*This is a fundamental area in ensuring that the local audit system is restored. We recognise the steps being taken by the working group on this matter and have no comments at this stage on skills and training.*

1. **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?**

*We have no comments on additional changes to those already being considered by the working group.*

1. **Are there other changes that we should consider that could help with improving the future pipeline of local auditor supply?**

*The proposals and direction set through this consultation, alongside the proposals included in the PSAA consultation on the local audit procurement for 2022/23, do seek to enhance and improve the pipeline of local auditor supply. As with responses to other questions, the review of the focus of audits should also reduce the burden on audit firms, which would have a positive impact on the market. This should be considered when considering the training and skills requirements of auditors and firms in the medium term.*

1. **Question not relevant to District Councils**
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3. **Question not relevant to District Councils**