

AUDIT COMMITTEE
Agenda

Date Thursday 8th June 2023

Time 6.00pm

Venue Crompton Suite, Civic Centre, Oldham, West Street, Oldham, OL1 1NL

Notes

1. DECLARATIONS OF INTEREST- If a Member requires advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or the Constitutional Services team at least 24 hours in advance of the meeting.

2. CONTACT OFFICER for this agenda is Peter Thompson, telephone – 0161 7705151, or, email – peter.thompson@oldham.gov.uk

3. PUBLIC QUESTIONS - Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the contact officer by 12.00 noon, Monday, 5th June 2023.

MEMBERSHIP OF THE AUDIT COMMITTEE
Councillors Akhtar, Al-Hamdani, S. Bashforth, Birch, Davis, Ghafoor, Salamat, Sykes and Woodvine
Independent Chair: Mr. G. Page

Item No

- 1 Appointment of Vice Chair
To appoint a Vice Chair of the Committee for the Municipal Year 2023/24.
- 2 Apologies For Absence
- 3 Urgent Business
Urgent business, if any, introduced by the Chair
- 4 Declarations of Interest
To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.
- 5 Public Question Time

To receive Questions from the Public, in accordance with the Council's Constitution.

6 Minutes of Previous Meeting (Pages 1 - 10)

The Minutes of the meeting of the Audit Committee held on 28th March 2023 are attached for approval.

7 Audit Committee Chair - Charged with Governance Management Process and Arrangements (Pages 11 - 24)

8 Director of Finance - Charged with Governance Management Process and Arrangements (Pages 25 - 38)

9 Update of Key Developments within the Remit of the Committee (Pages 39 - 152)

10 Local Code of Corporate Governance (Pages 153 - 166)

11 Internal Audit and Counter Fraud Progress Report on 2022/23 (Pages 167 - 180)

12 Proposed Audit Committee Work Programme for 2023/24 (Pages 181 - 188)

13 Exclusion of Press and Public

That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following two items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

14 Partnership Risk Dashboard (Pages 189 - 200)

15 Senior Information Responsible Officer (Pages 201 - 206)



AUDIT COMMITTEE
28/03/2023 at 6.00 pm

Present: Mr. Grenville Page (Independent Chair)
Councillors Ahmad, C. Gloster, Islam and Ball

Also in attendance:

| | |
|--------------------|---|
| Anne Ryans | Director of Finance |
| Mark Stenson | Assistant Director of Corporate Governance and Strategic Financial Management |
| Karen Murray | Mazars LLP – External Auditors |
| John Miller | Head of Internal Audit and Counter Fraud |
| Victoria Gallacher | Head of Insurance and Information Management |
| Lee Walsh | Finance Manager (Capital and Treasury) |
| Peter Thompson | Constitutional Services |

1 **INDEPENDENT CHAIR OF THE AUDIT COMMITTEE**

The Assistant Director of Corporate Governance and Strategic Financial Management reminded the Committee that Mr. Grenville Page had been appointed Independent Chair of the Audit Committee for a 4-year term ending at the end of the 2026/27 Municipal Year. Mr Page attended the meeting and introduced himself. Accordingly, Members of the Committee and Officers present introduced themselves.

Mr Grenville Page in the Chair.

2 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Alyas and Councillor Arnott.

3 **URGENT BUSINESS**

There were no items of urgent business received.

4 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

5 **PUBLIC QUESTION TIME**

There were no public questions for this meeting of the Committee to consider.

6 **MINUTES OF PREVIOUS MEETING**

Resolved:

That the Minutes of the meeting of the Audit Committee, held 16th January 2023, be approved as a correct record.

7 **AUDIT COMPLETION REPORT**

The Committee considered a report of the Director of Finance which advised members that, following the 2021/22 Statement of Accounts audit, the Council's External Auditor, Mazars LLP, had prepared a draft Audit Completion Report (ACR). The

contents of the ACR were positive and gave Members an assurance regarding the financial processes and practices that had been adopted by the Council. However, this report had to remain draft as there was one outstanding item preventing the full sign off of the accounts.

The report presented the Council's response to the single recommendation highlighted in the 2021/22 draft ACR. The audit work had identified a minor matter which had resulted in one low priority recommendation. The recommendation related to the Council's insurance provision. In this regard, the Council obtained a report from an external expert to manage its self-insurance position. This report was used to determine the value of the insurance provision recognised in the accounts. However, the report was not produced for accounting and reporting purposes. The recommendation was that the Council's finance team should be further involved in the self-insurance valuation process and ensure the insurance provision elements met the definition of a provision.

Having regard to the issue identified, the Council had already addressed the issue in its work in preparation for the completion of the Statement of Accounts 2022/23. The Council had requested a more detailed valuation from the external expert and in addition had already, during the 2022/23 financial year, conducted a detailed review of the provisions held to ensure that there was a clearer working paper for the 2022/23 Statement of Accounts.

There was also discussion about the one outstanding audit item that was preventing the full sign off of the accounts. This related to the Greater Manchester Pension Fund (GMPF) audit and timing differences between the data the actuary has used in valuation reports and the pension fund valuation position GMPF has used for its accounts (as referred to in Item 7 of the agenda). It was agreed that if a satisfactory resolution could be found and this was the only adjustment required, the accounts for 2021/22 could be approved the Chair of the Audit Committee in consultation with the Director of Finance. This would then be reported to the next available Audit Committee.

Resolved:

1. That the Committee notes: the content of the draft Audit Completion Report and the positive nature of the commentary; the response to the recommendation highlighted by the Council's External Auditor, Mazars LLP, in the draft Audit Completion Report; and how the Council has implemented the recommendation.
2. That authority be delegated to the Chair of the Committee, in consultation with the Director of Finance, to approve and sign off the 2021/22 Statement of Accounts should the only adjustment required relate to the GMPF audit.

The Committee received a report of the Director of Finance which reminded Members that this Committee was the body that was charged with scrutiny and approval of the authority's Statement of Accounts. The submitted report presented an update on the current position regarding the audit and approval of the 2021/22 Statement of Accounts.



The report presented an update on the Council's Statement of Accounts for the financial year 2021/22 and highlighted the current progress of the audit of the 2021/22 accounts by Mazars LLP. The report also advised on developments regarding the preparation and review of the Whole of Government Accounts for both 2020/21 and 2021/22, providing an update on the Department for Levelling Up, Housing & Communities (DLUHC) consultation on Infrastructure Assets. The Director of Finance also highlighted the low priority recommendation highlighted in the Council's Draft Audit Completion Report (ACR).

The Council submitted its draft 2021/22 financial statements to the External Auditors, Mazars LLP, on 31 May 2022 which was within the statutory deadline and the Council's internal deadline as agreed with the External Auditor. The public inspection period began on 1 June 2022 and concluded on 14 July 2022.

The audit of the accounts commenced on 6 June 2022 and was moving to a conclusion. To facilitate the audit process, the Council made working papers available to the auditors at an early stage and as part of the Council's interim audit during the financial year. All queries were dealt with as promptly as possible.

There was one outstanding audit item that still needed to be completed by the External Auditor. The outstanding item related to the Greater Manchester Pension Fund (GMPF) audit and timing differences between the data the actuary has used in valuation reports and the pension fund valuation position GMPF has used for its accounts. This has resulted in an understatement of the Pensions Fund asset valuations. The External Auditor estimated that the potential impact on the Council's financial statements for 2021/22 would be either material or close to materiality for the Council. To accurately assess the impact for the Council, input was required from the actuary and GMPF. To reach a resolution, discussions were being held between Mazars LLP, GMPF and the actuary.

Resolved:

That the Committee notes the update on the audit of the Council's Statement of Accounts for 2021/22 and related matters.

9

PROPOSED ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS FOR THE 2022/23 FINAL ACCOUNTS

The Committee considered a report of the Director of Finance which advised members that in line with best practice principles, approval was sought for the significant accounting policies and

the critical judgements to be adopted in the preparation of the Council's 2022/23 Statement of Accounts.



The Director of Finance advised Members that the Council's accounting policies were the specific principles, conventions, rules and practices that were applied in the production and presentation of the annual Statement of Accounts. These policies are statutorily required to be disclosed within the notes supporting the annual accounts - a copy of the policies was attached at Appendix 1 to the submitted report. There had been no changes from the amended policies (updated for the Infrastructure Asset Statutory Override, that was used to prepare the 2021/22 Statement of Accounts.

During the 2021/22 final accounts process, the accounting policy related to Infrastructure Assets (included within policy 1.2 Property, Plant and Equipment) was updated in accordance with the temporary relief offered by the Update to the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) and the statutory override following the amendment to Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England/Wales) (Amendment) Regulations 2022. This allowed the Council to treat the value of any replacement component of infrastructure assets as nil, without the need for further evidence and is in response to an issue with regards to the valuation of Infrastructure Assets, relating to component accounting and how Local Authorities have been dealing with de-recognising infrastructure expenditure.

In terms of 'Critical Judgements' the Director of Finance informed the Committee that, in line with International Financial Reporting Standards (IFRS) and the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Council was required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements. These were shown at Appendix 2 of the report.

Critical Judgements included details of which schools' property, plant and equipment and PFI information should be included on the Council's balance sheet, which entities fall within the Council's group boundary and which organisations should be included within the Council's group accounts and how properties should be classified as investment property.

The Critical Judgements note had been reviewed for 2022/23 and this had resulted in the removal of the judgement related to Manchester Airport Group, the treatment of which was covered within the Council's accounting policies. There have been no further significant changes compared to the 2021/22 Critical Judgements note, that had previously been reported to the Committee.

1. That the Committee approves the Council's proposed accounting policies, to be adopted in completing the 2022/23 Statement of Accounts.
2. That the Committee notes the critical judgements made by management when producing the Statement of Accounts.

10

AUDIT OF HOUSING BENEFIT SUBSIDY

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management which presented the outcome of the external audit of the Housing Benefit Subsidy claim form for the financial year 2021/22.

The Committee was informed that KPMG LLP had undertaken the audit of the Housing Benefit Subsidy Claim. Annex 1, to the submitted report, included a report prepared by the officer of KPMG LLP who led the audit process. The report advised of: Work undertaken - which encompassed testing in relation to twenty individual cases linked to specific cells on the claim form and focussed testing of over 180 additional cases; and Findings - there was one classification error of £117 which had been extrapolated to £708 using the prescribed Department of Work and Pensions methodology, there was also six observations that had been made and a requirement to amend the Housing Subsidy Claim form.

Overall, the report was considered to be reasonably positive but had highlighted some issues which have been reviewed in preparation for the 2022/23 audit process.

Resolved:

That the report be noted.

11

INTERNAL AUDIT CHARTER 2023/24

The Committee considered a report of the Head of Audit and Counter Fraud, which advised Members of the proposed Internal Audit Charter for 2023/24.

The work of Internal Audit at Oldham Council has been governed by the UK Public Sector Internal Audit Standards (PSIAS) since 1st April 2013 (updated in March 2017). The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all Internal Auditors working in the UK public sector.

PSIAS requires that the "Internal Audit Charter" should define the mission, purpose, authority and responsibility of the Internal Audit function and its position within the organisation. The 2017 External Assessment report by CIPFA contained two recommendations in connection with the form and contents of this Charter, which were fully agreed and implemented by the Assistant Director of Corporate Governance and Strategic Financial Management in 2018/19 and subsequently in this latest Charter by the Head of Audit and Counter Fraud.

In accordance with the PSIAS external assessment, the following changes were made to the 2018/19 Audit Charter and these are to be retained in the attached 2023/24 Audit Charter, as follows:

- i. The “Mission of Internal Audit” replaced the role and purpose, which was clarified in the Charter.
- ii. The Audit Charter incorporated a statement to confirm whether the Service has sufficient resources to deliver an effective Internal Audit service to the Council.

As part of his annual review during 2023, the Head of Audit and Counter Fraud, had reviewed the Internal Audit Charter to ensure that it was in-line with latest guidance. The proposed 2023/24 Internal Audit Charter was attached, for Member’s information, at Appendix 1, to the report. This latest iteration of the Audit Charter contained two further changes: Clarification on the role and purpose of audit assurance reviews and consultancy assignments; and clarification on how conflicts of interest were to be resolved should these arise.

Resolved:

That the Committee approves the Internal Audit Charter, effective from 1st April 2023.

12

UPDATE ON GENERAL MATTERS

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management concerning two recent developments. Firstly, it was advised that there was to be a change in the External Audit Team overseeing the Oldham Council audit function for the financial year 2022/23 and for the new Public Sector Audit Appointments (PSAA) contract period from 2023/24 to 2027/28. Secondly the report provided an update on the current review being undertaken by the Public Accounts Select Committee on the timeliness of Local Public Audit Reporting. Executive Summary.

The Committee’s members were informed that there was a process whereby the appointed External Auditor, as part of good professional practice change their external audit personnel on a regular basis (by custom and practice this tended to be every 7 years). In line with good practice Oldham’s current Audit Partner was to change, with Karen Murray being replaced by a new Partner, Daniel Watson. Mr Watson will lead the audit process for the 2022/23 accounts and then for the new PSAA contract period running for the financial years 2023/24 to 2027/28.

The Committee was informed that the Parliamentary Public Accounts Committee was carrying out a review into the timeliness of auditors undertaking their work and reporting their findings thereon. This has resulted in evidence being provided, on 16 March 2023 by: Grant Thornton LLP (detailed at Appendix 1 to the report); The Local Government Association (detailed at Appendix 2 to the report); and a Local Authority Section 151 Officer representing the sector (detailed at Appendix 3 to the report). The issues highlighted in this evidence detailed clearly

the challenges facing the production and subsequent external audit of accounts.



Oldham
Council

Resolved:

1. That the report be noted.
2. The Committee places on record its appreciation of the work that Karen Murray has carried out during her time as Oldham Council's Audit Partner.

13

UPDATE ON WORK PROGRAMME 2023

The Committee received a copy of the proposed Audit Committee Work Programme for 2022/23 and early 2023/24.

Resolved:

That the proposed Audit Committee Work Programme for 2022/23 and early 2023/24 be noted.

14

EXCLUSION OF PRESS AND PUBLIC

Resolved:

That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following four items of business on the grounds that they contain exempt information, as defined under paragraphs 1 and 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

15

2023/24 INTERNAL AUDIT AND COUNTER FRAUD PLAN

The Committee considered a report of the Head of Audit and Counter Fraud which provided details of the proposed Internal Audit and Counter Fraud Plan for the 2023/24 financial year.

The Committee was informed that the work of Internal Audit at Oldham Council was governed by the UK Public Sector Internal Audit Standards (PSIAS) 2013 (Revised 2017). The Standards comprise a definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards were mandatory for all internal auditors working in the UK public sector. The Council's Head of Audit and Counter Fraud is required, at least annually, to submit to the authority's senior management and the Audit Committee an internal audit plan for review and approval. The internal audit plan should be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee.

The submitted report summarised the work planned to be carried out by the Council's Audit team from 1 April 2023 to 31 March 2024. The plan had been compiled based on insight and information from a variety of sources including the Council's: Annual Audit Needs Assessment; Corporate Plan; Strategic Corporate and Service Risk Registers; and Fraud and Loss Risk Assessment. Information and intelligence provided by senior officers of the Council, including the Authority's S151 Officer, had also been utilised in compiling the audit plan for 2023/24.

The Plan also continued to prioritise work on the Fundamental Financial Systems (FFS) reviews to support the 2023/24 audit of the financial accounts, and the requirements of the S151 Officer in the discharge of her responsibilities.

The plan also focused audit resources on key themes that had been identified in the Council's Corporate Plan 2022 - 2027 (which was formally adopted by the Council on 7th September 2022) and which highlighted the following five key themes:

- a. Healthy, safe and well supported residents.
- b. A great start and skills for life.
- c. Better jobs and dynamic businesses.
- d. Quality homes for everyone.
- e. A clean and green future.

Resolved:

That the 2023/24 Audit and Counter Fraud Plan, as detailed in the submitted report, be approved.

16

UPDATE ON CORPORATE RISK REGISTER

The Committee considered a confidential report of the Director of Finance that updated Members on the position of the Council's Corporate Risk Register as at the end of December 2022. As the Committee charged with governance it was a part of the role of the Audit Committee to scrutinise the Corporate Risk Register.

It was reported that the Council has an agreed Risk Management Strategy and Framework which was refreshed and shared with senior Council officers at a meeting of the authority's Management Board in July 2022. Most risks, identified in the report, were linked to the business planning process and were refreshed quarterly by services. Appendix 1 of the report detailed the actual items in the Corporate Risk Register.

Resolved:

That the report be noted.

17

UPDATE ON THE ANNUAL GOVERNANCE STATEMENT FOR 2021/22 AND NEW ISSUES

The Committee considered a report of the Assistant Director of Corporate Governance and Strategic Financial Management, which updated Members on the progress made to reduce the risk of issues arising for the Council to address, where matters were identified as areas requiring improvement in internal control within the draft Annual Governance Statement for 2021/22.

It was reported that the Council, as part of its draft Statement of Final Accounts for 2021/22, produced an Annual Governance Statement. The Annual Governance Statement helped to identify the significant governance issues that the Council needs to consider in the 2023/24 financial year to reduce its risk. Appendix 1, to the report, detailed the issues reported in the 2021/22 Annual Governance Statement and the actions taken

so far during the 2022/23 financial year to mitigate these risks. It also gave an opinion on the present risk at the production of the Annual Governance Statement based upon a Red/Amber/Green (RAG) rating. A report updating the Annual Governance Statement to support the final version of the 2021/22 Statement of Final Accounts was planned to be submitted to a future meeting of the Audit Committee following the formal resolution of the Pension Valuation issue.

Resolved:

That the Committee notes the progress update on the issues identified in the 2021/22 Annual Governance Statement.

18

SENIOR INFORMATION RISK OWNER UPDATE

The Committee considered a confidential report of the Assistant Director of Corporate Governance and Strategic Financial Management that informed Members on information security breaches and risk issues/actions. The report was a provisional year-end report which highlighted Information Security Incidents and related matters that had occurred from 1st April 2022 to 19th March 2023.

Resolved:

That the report be noted.

The meeting started at 6.00pm and ended at 7.15pm

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Report to Audit Committee

Audit Committee Chair - Charged with Governance - Management Processes and Arrangements

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management

Ext. 4783

8 June 2023

Reason for Decision

To enable the Council's External Auditors, Mazars LLP, to carry out their duties under the Local Audit and Accountability Act 2014, the Audit Committee via the Chair (for 2021/22 financial year in Oldham this was the Vice Chair) is required to provide the auditors with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

Executive Summary

In carrying out their annual audit of the Council, Mazars LLP comply with the International Standards on Auditing (ISAs) as adopted by the UK Financial Reporting Council (FRC).

ISAs require the auditor to make inquiries of those charged with governance (TCWG) to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

Mazars LLP has sent the Chair of the Audit Committee a questionnaire setting out their inquiries of TCWG. The questionnaire and the Chair of the Audit Committee's proposed responses are set in Attachment 1. There is a requirement to respond to Mazars LLP by 30 June 2022.

Recommendation

That Members of the Audit Committee are asked to consider the attached response, suggest any amendments they believe are appropriate and to note the response of the Audit Chair to Mazars LLP.

Cllr N Islam
Chair of the Audit Committee
Oldham Metropolitan Borough Council
Civic Centre, West Street
Oldham
OL1 1UT

Direct line: +44 (0)161 238 9333
Email: Yogita.das-patel@mazars.co.uk
Date: 17th April 2023

Dear Cllr Islam,

Audit 2022/23 - understanding those charged with governance processes and arrangements

We are required by auditing standards to maintain a good understanding of the Authority's management processes and arrangements. This enables us to deliver an efficient audit and reduces the time the Authority's staff need to spend responding to auditors' queries. As part of this process I would be grateful if you could provide a response to the following questions on behalf of the Audit Committee:

- How do you exercise oversight of management's processes in relation to:
 - undertaking an **assessment of the risk that the financial statements may be materially misstated due to fraud or error** (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the Authority, including any specific **risks of fraud** which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - **communicating to employees its view on business practice and ethical behaviour** (for example by updating, communicating and monitoring against the Authority's code of conduct); and
 - communicating to you the processes for **identifying and responding to fraud or error**.
- How do you **oversee management processes** for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2022/23? If so, please provide details.
- How do you gain assurance that **all relevant laws and regulations have been complied with?** Are you aware of any instances of non-compliance during 2022/23? If so, please provide details.

Mazars LLP – One St Peter's Square - Manchester – M2 3DE
Tel: +44 (0) 161 238 9200 – Fax: +44 (0) 161 238 9201 – www.mazars.co.uk

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- Are you aware of any **actual or potential litigation or claims that would affect the financial statements**? If so, please provide details.
- Have you carried out a **preliminary assessment of the going concern assumption** and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern? If so, please provide details.

In addition to the above, which cover the Authority's processes and controls, **Appendix 1 includes further questions to ascertain your views on fraud**. Your responses will inform our assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work undertaken in 2022/23.

I would be grateful if you could respond by letter or email on behalf of the Audit Committee by 30 June 2023. In the meantime, please don't hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Yogita Das-Patel
Audit Manager

Appendix 1

| Question | Management Response |
|---|---|
| How do you exercise oversight of management's processes in relation to: | |
| <ul style="list-style-type: none"> o undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments); | <p>In my role as Chair of the Audit Committee, I can advise that the Director of Finance provides regular updates to the Audit Committee on matters relating to the production of the Statement of Accounts. The Council has in place a robust quality assurance system to review the accuracy and quality of its accounts. This includes checks to ensure the financial statements are correct and are supported by detailed records.</p> <p>This is supported by the review of fundamental financial systems (FFS), which are audited by the Internal Audit function in two stages each year. These audits include a follow up of previously agreed actions. The findings arising from the financial audits are reported to the Audit Committee on a regular basis and updates are provided against specific areas and/or systems as requested by the Audit Committee.</p> <p>The detailed audit programme, for each financial system, reflects the risk of fraud and error and the Council's External Auditors review the work completed. This review contributes to the assessment of the risk of material misstatement.</p> <p>Arrangements are in place for staff within the Finance Team to attend appropriate training courses so that they have up-to-date technical knowledge and skills.</p> <p>The Annual Report from the Head of Audit and Counter Fraud gives an opinion on the overall control environment adding to the assurance the underlying practices for processing transactions are appropriate and this includes the conclusions from the audit reviews of the financial systems.</p> <p>Audit Committee Members have received training in their role and responsibilities, including their role in reviewing the Authority's Financial Statements most recently through training provided by CIPFA on 6 and 13 January 2022, with further training planned for 4 and 11 July 2023.</p> <p>The Council, alongside a significant proportion of Authorities across the country is impacted by the delay in obtaining a final opinion on its 2021/22 accounts. At the time of providing this assurance then the risk remains that a matter relating to the financial year 2021/22 could impact on the 2022/23 accounts. The Council has published its draft accounts for 2022/23 in line with the statutory deadline but will be unable to</p> |

| Question | Management Response |
|--|---|
| | <p>approve the final accounts for this year until the matters impacting on previous years accounts are resolved.</p> |
| <ul style="list-style-type: none"> ○ identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist; | <p>The Audit and Counter Fraud (A&CF) Team identifies and responds to the risk of fraud via the on-going review of the A&CF Plan. This is an annual plan based on strategic audit needs assessment, the Fraud Response Plan and the Fraud and Loss Risk Assessment.</p> <p>This includes the risk of fraud identified by the National Audit Office (NAO) Fraud Advisory Panel, the CIPFA Fighting Fraud and Corruption Locally guidance and the Cabinet Office in their role as lead for the National Fraud Initiative (NFI).</p> <p>The Assistant Director of Corporate Governance and Strategic Financial Management ensures that the risk of fraud is highlighted to the Audit Committee in the regular updates reported against the Annual Governance Statement (AGS) and via the service updates submitted to the Audit Committee.</p> |
| <ul style="list-style-type: none"> ○ communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct); and | <p>The Council's Staff Code of Conduct and its appendices set out the standards expected around a range of matters, including the "Nolan Principles Standards of Public Life", "Gifts and Hospitality", "Disclosure of Information", "Relationships", "Contractors" and "Behaviour during Tendering".</p> <p>The Council's Code of Conduct is available via the Council's Intranet and is included as part of the Council's induction training.</p> <p>The Members Code of Conduct sets out the standards expected from elected Members.</p> <p>Respective Codes of Conduct are regularly reviewed and updated as appropriate, particularly in line with national guidance.</p> |
| <ul style="list-style-type: none"> ○ communicating to you the processes for identifying and responding to fraud or error. | <p>As Chair of the Audit Committee, I can advise that fraud risks and issues are reported by the Head of Audit and Counter Fraud in the A&CF Plan, the Fraud and Loss Risk Assessment, the Fighting Fraud and Corruption Locally self-assessment checklist, and via regular specific reporting, e.g. updates against specific risks in the Council's Annual Governance Statement (AGS).</p> |

| Question | Management Response |
|--|--|
| | <p>A suite of updated Counter Fraud policies was presented to, reviewed and approved by the Council’s Audit Committee on 29 November 2022.</p> <p>Ad hoc matters requiring a report to the Audit Committee are also prepared by the Assistant Director of Corporate Governance and Strategic Financial Management at the appropriate time.</p> <p>The AGS identifies the risks linked into the Transparency Agenda, and the Assistant Director of Corporate Governance and Strategic Financial Management provides regular updates to the matters reported in the AGS.</p> <p>I receive and can request briefings on a one-to-one basis from the Assistant Director of Corporate Governance and Strategic Financial Management on matters as required.</p> |
| <ul style="list-style-type: none"> How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2021/22? If so, please provide details. | <p>The A&CF Plan as reported to the Audit Committee includes reviews of management process and controls. The conclusions and actions arising from the audits in the plan, and any ad hoc reviews, are reported to the Audit Committee regularly as part of the summary of Internal Control Matters in each Directorate/Service area.</p> <p>A&CF agree recommendations with managers to improve internal control, which are routinely subject to follow-up. The 2022/23 Annual Report by the Head of Audit and Counter Fraud will set out his opinion to inform the Audit Committee.</p> |
| <ul style="list-style-type: none"> How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2021/22? If so, please provide details | <p>In accordance with the appropriate financial thresholds/scheme of delegation, all reports to the Council’s Committees include formal comments from appropriate statutory officers. This includes the “Risk Assessment” comments, which are provided by the Assistant Director of Corporate Governance and Strategic Financial Management.</p> <p>Internal Audit reviews whether the Council has adhered to relevant legislation and guidance as part of its on-going audit arrangements and programmes.</p> <p>No reports were subject to Call-In by the Scrutiny Committee during 2022/23.</p> |

| Question | Management Response |
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| <ul style="list-style-type: none"> Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details. | <p>I am assured by the Assistant Director of Corporate Governance and Strategic Financial Management that all appropriate matters have been incorporated into the production and review of the AGS and the draft Statement of Account for the financial year 2022/23.</p> <p>As at 31 March 2023, there is no specific matter which is required to be reported upon in the accounts other than the potential restatement in relation to the valuation of the Greater Manchester Pension Fund which has two elements, a national issue and a separate local issue. The perceived risks in the financial year 2022/23 have been considered and appropriately reported to the Audit Committee.</p> |
| <ul style="list-style-type: none"> Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Council's ability to continue as a going concern? If so, please provide details. | <p>By compliance with professional standards, the Director of Finance presents a balanced budget for approval at full Council and prepares the Council's financial statements on the going concern basis. This is evidenced by the draft Statement of Accounts for the financial year 2022/23 published on the Council's website which clearly state they were prepared on a going concern basis. This confirms the ability of a business to meet its financial obligations at present when they fall due.</p> <p>Additional reports such as the Reserves Policy are submitted to this Committee to provide additional assurance on the going concern basis.</p> <p>Disclosures are included within the Statement of Accounts based on an assessment of their materiality. A disclosure is considered material if through an omission or a misstatement it would influence the decisions made by users of the accounts. This could be due to the value or the nature of the disclosure.</p> <p>In my role of as the Chair of the Audit Committee, I liaise closely with the Assistant Director of Corporate Governance and Strategic Financial Management, the Head of Audit and Counter Fraud and the Director of Finance and can therefore receive specific briefings on the overall financial position of the Council. I can request detailed information on any issues should I have any concerns.</p> |

| Question | Response |
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| <p>1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2022 – 31 March 2023 (<i>if 'yes', please provide details</i>)?</p> | <p>No. During this period of time (excluding business grants administered by the Council), there has been no significant (i.e., greater than £10k) corporate (in-house) fraud reported to me committed by Council staff or contractors, which has required investigation.</p> |
| <p>2. Do you suspect fraud may be occurring within the organisation?</p> | <p>As at 31 March 2023, I am assured that all instances of suspected fraud within the organisation have been investigated.</p> <p>The Council is a complex multidisciplinary organisation so as Chair of the Audit Committee I am aware that there is a risk that Officers are unaware of some fraud occurring that they would otherwise bring to my attention.</p> <p>An added assurance that appropriate controls are in place is the opinion given in the Annual Report of the Head of Audit and Counter Fraud.</p> <p>The regular reports to the Audit Committee on progress against the Plan set out the position on any fraud uncovered.</p> |
| <p>3. Have you identified any specific fraud risks within the Council?</p> | <p>Fraud Risks are captured, reported and monitored by the Audit Committee via the Fraud and Loss Risk Assessment, the Fraud Response Plan, and fraud risks are assessed for each audit review.</p> |
| <p>4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (<i>if 'yes', please provide details</i>)?</p> | <p>Yes. In all financial systems for 2022/23 Officers have provided assurance that there are agreed processes to review transactions.</p> <p>There are issues identified in the operation of some systems which have been highlighted to the Audit Committee and included in the Council's Annual Governance Statement (AGS).</p> <p>Where appropriate, extra audit testing is conducted by Internal and External Audit to provide extra assurance around known issues.</p> <p>Detailed Action Plans are in place, subject to regular follow-up to address issues included in the AGS.</p> |

| Question | Response |
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| <p>5. If not where are the risk areas?</p> | <p>As above, potential risks and issues are reported in the Council's AGS and updates are reported to the Audit Committee on a regular basis. Risks are assessed annually and as part of detailed audit planning.</p> <p>The Council continues to experience significant challenges in social care. The Council continues to track the potential risks around these service areas, as this is clearly an area of management focus.</p> <p>One disappointment, as highlighted in the draft AGS, is the lack of progress made in the financial year 2022/23 to improve the control environment for Payroll.</p> <p>Large Capital Programme projects will also provide additional fraud opportunities in areas such as mandate fraud.</p> <p>An issue which has impacted on a minority of LKocal Authorities is poor partnership governance. The Council monitors its risks via the production of a Partnership Dashboard.</p> |
| <p>6. How do you encourage staff to report their concerns about fraud?</p> | <p>The Council's Whistleblowing Policy sets out the arrangements for staff to anonymously report potential concerns and it is included in the Council's Staff Code of Conduct. Following a risk assessment process, the A&CF Team will investigate allegations discreetly, agree a course of action and agree recommendations. Where significant issues arise, External Audit will be briefed.</p> |
| <p>7. What concerns about fraud are staff expected to report?</p> | <p>The Whistleblowing Policy includes the reporting by employees of suspected misconduct, illegal acts or failure to act within the Council. The aim of the Policy is to encourage employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns.</p> |
| <p>8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> | <p>None are recorded. Contract Procedure Rules set out the procedures for procurement and this service is subject to regular review by Internal Audit. I am assured that no significant issues which will impact the financial statements have been identified in 2022/23.</p> |

| Question | Response |
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| | <p>Recent events at other Local Authorities has highlighted that Council's do not always understand their financial risks when entering into partnership arrangements. It is an area that the Audit Committee will focus on by its inclusion in the future work programme.</p> |
| <p>9. How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>As above, the Council's Contract Procedure Rules set out the procedures for Procurement and this service is subject to review by Internal Audit. Other policies (and internal controls) to mitigate this risk include:</p> <ul style="list-style-type: none"> • Members' Code of Conduct. • Members' Register of Interests in line with the 2011 Localism Act. • Member's Allowances' are disclosed in Notes to the Council's Statement of Accounts. • The Council operates a Standards Committee. • Officers' Code of Conduct requires staff to record Gifts and Hospitality in accordance with the Code of Conduct. • Levying Bodies are subject to a separate external audit process. • The production of Group Accounts which are subject to external audit. • The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. These details are included in Note 12 to the Statement of Accounts. In support of this Senior Officers are required to declare interests in companies, organisations and entities with which the Council may interact in order to ensure transparency. |
| <p>10. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?</p> | <p>No, I am not aware of any entries in the accounting records of this nature. I am assured, supported by past External Audit feedback that the Finance Service applies a detailed three stage quality assurance process, which incorporates independent/ "fresh eye" review prior to submitting its draft Accounts for publication and review by the External Auditor.</p> |

| Question | Response |
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| <p>11. Are there particular balances in the accounts where fraud is more likely to occur?</p> | <p>The balances of Accounts Payable (AP), Accounts Receivable and Fixed Assets were reviewed twice in 2022/23 as part of the yearly FFS programme of audits. The systems for AP are exposed to the potential risk of bank mandate fraud, whereby a “fraudster” contacts the Council to inform them that their bank details have changed, in an attempt to persuade the Council to make the payment to the erroneous account.</p> <p>Colleagues in the AP service and Procurement team are aware off these risks and apply manual checks to mitigate them.</p> |
| <p>12. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?</p> | <p>No, I am not aware of any assets, liabilities or transactions that I believe have been improperly included or omitted from the accounts of the organisation.</p> <p>I am assured that the Quality Assurance process in the preparation of the draft financial statements, by the Finance Team, ensures the detailed review of the draft accounts prior to publication and submission to the External Auditors.</p> |
| <p>13. Could a false accounting entry escape detection? If so, how?</p> | <p>This is considered to be unlikely given the internal and external assurance provided to the Audit Committee of the controls in place for processing transactions.</p> <p>The Council is a complex multidisciplinary organisation so there is a potential risk that management is unaware of some false accounting occurring.</p> <p>An added assurance in this area is the review by External Audit who provide added assurance for transactions which are in excess of the materiality value.</p> |
| <p>14. Are there any external fraud risk factors, such as collection of revenues?</p> | <p>During 2022/23, the collection of revenue from Sundry Debtors, Council Tax and Business Rates was reviewed by Internal Audit as part of the fundamental financial systems audits. No specific fraud risks were identified as a result of these reviews.</p> <p>The external frauds in this area have become more sophisticated as fraudsters use information obtained to test the systems of all Authorities.</p> |

| Question | Response |
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| <p>15. Are you aware of any organisational or management pressure to meet financial or operating targets?</p> | <p>No, I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to meet financial or operating targets. Regular budget monitoring is reported to Cabinet and feedback to the Audit Committee indicates reconciliations of key accounts are conducted on a monthly basis, and significant variances are investigated.</p> <p>The Council's Corporate Performance Indicators are reported to Cabinet and recorded via the Council's corporate performance reporting system. Detailed review is now undertaken by the Performance Overview and Scrutiny Committee.</p> |
| <p>16. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p> | <p>No, as above, I am not aware of any inappropriate organisational or management pressure being applied, to meet financial or operating targets. The Director of Finance arranges for monthly budget monitoring to be conducted with service managers and reconciliations of key balances are conducted monthly, and significant variances are investigated.</p> <p>As above, Corporate Performance Indicators are reported to Cabinet and recorded via the Council's corporate performance reporting system. Detailed review is now undertaken by the Performance Overview and Scrutiny Committee.</p> |
| <p>17. What arrangements has the Council put in place in response to the Bribery Act 2010?</p> | <p>The Staff Code of Conduct, Section 12, sets out the responsibilities for staff re: Bribery and Corruption.</p> <p>The Assistant Director of Corporate Governance and Strategic Financial Management arranged for in-house training of colleagues in the A&CF Team in relation to the Bribery Act 2010, and works in conjunction with Legal colleagues, where appropriate.</p> <p>As part of the regular review of the suite of Counter Fraud policies the "Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan" was reviewed and revised and approved by the Council's Audit Committee on 29 November 2022. These will be reviewed in 2023/24.</p> <p>As Chair of the Audit Committee, I have had appropriate guidance from Officers on this matter.</p> |



Report to Audit Committee

Director of Finance - Charged with Governance- Management Processes and Arrangements

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management.

Ext. 4783

8 June 2023

Reason for Decision

To enable the Council's External Auditor, Mazars LLP, to carry out duties required under the Local Audit and Accountability Act 2014, the Director of Finance is required to provide the auditors with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

Executive Summary

In carrying out the annual audit of the Council, Mazars LLP must comply with the International Standards on Auditing (ISAs) as adopted by the UK Financial Reporting Council (FRC).

ISAs require the auditor to make inquiries of those charged with governance (TCWG) to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.

Mazars LLP has sent the Director of Finance a questionnaire setting out their inquiries of TCWG. The questionnaire and the Director of Finance's proposed responses are set in the attachment (Annex 1). There is a requirement to respond to Mazars LLP by 30 June 2022.

Recommendation

That Members of the Audit Committee are asked to consider the attached response, suggest any amendments they believe are appropriate and to note the response of the Director of Finance to Mazars LLP.

Anne Ryans
Director (Finance)
Oldham Metropolitan Borough Council
Civic Centre
West Street, Oldham
OL1 1UT

Direct line: +44 (0)161 238 9333
Email: Yogita.das-patel@mazars.co.uk
Date: 17th April 2023

Dear Anne,

External Audit 2022/23 – understanding management processes and arrangements

We are required by auditing standards to maintain a good understanding of your management processes and arrangements. This enables us to deliver an efficient audit and reduces the time the Council staff needs to spend responding to our queries. As part of this process, I would be grateful if you could provide a response to the following questions:

- What processes are in place at the Council to:
 - undertake an **assessment of the risk that the financial statements may be materially misstated due to fraud or error** (including the nature, extent and frequency of these assessments);
 - identify and respond to **risks of fraud**;
 - **communicate to employees the Council's views on business practice and ethical behaviour** (for example by updating, communicating and monitoring against relevant codes of conduct); and
 - **communicate to the Audit Committee the processes for identifying and responding to fraud or error.**
- How does management gain assurance that **all relevant laws and regulations have been complied with?** Have there been any instances of non-compliance during 2022/23?
- Are there any **actual or potential litigation or claims that would affect the financial statements?**
- **What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships.** For any new related parties (i.e. any not already disclosed in the previous year's audited financial statements) please provide a list of them, explain their

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nature, and whether there have been any transactions with these related parties during the year to 31 March 2023.

In addition to the above, which cover the Council's processes and controls, **Appendix 1 includes further questions to ascertain your views on fraud.** Your responses will inform our assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work undertaken in 2022/23.

I would be grateful if you could respond by letter or email on behalf of the Council by 30 June 2023. In the meantime, please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Yogita Das-Patel
Audit Manager

Appendix 1

| Question | Management Response |
|---|---|
| <p>What processes are in place at the Council to:</p> | |
| <ul style="list-style-type: none"> ○ undertake an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments); | <p>Staff within the Finance Team attend appropriate training courses and have up-to-date technical knowledge and skills to enable them to prepare the financial statements.</p> <p>The Council has in place a robust system to review the accuracy and quality of its accounts. This includes checks to ensure the financial statements are correct and are supported by detailed records. There is also management oversight and review of the accounts.</p> <p>This is supported by the review of fundamental financial systems (FFS), which are audited by the Internal Audit function in two stages each year. These audits include a follow up of previously agreed actions.</p> <p>The detailed audit programme for each financial system reflects the risk of fraud and error and are discussed with the Council's External Auditors, who also review the work completed. This review contributes to the assessment of the risk of material misstatement.</p> <p>The Annual Report from the Head of Audit and Counter Fraud gives an opinion on the overall control environment adding to the assurance that the underlying processes for processing transactions are appropriate.</p> <p>The Council, alongside a significant proportion of Authorities across the country is impacted by the delay in obtaining a final opinion on its 2021/22 accounts. At the time of providing this assurance then the risk remains that matters relating to the financial year 2021/22 could impact on the 2022/23 accounts. The Council has published its draft accounts for 2022/23 in line with the statutory deadline but will be unable to approve the final accounts for this year until the matters impacting on previous years accounts are resolved</p> |
| <ul style="list-style-type: none"> ○ identify and respond to risks of fraud; | <p>The Audit and Counter Fraud (A&CF) Team identifies and responds to the risk of fraud via the on-going review of the A&CF Plan. This is an annual plan based on strategic audit needs assessment, the Fraud Response Plan, and the Fraud and Loss Risk Assessment. This includes the risk of fraud identified by the National Audit Office (NAO) Fraud Advisory Panel, the CIPFA Fighting Fraud and Corruption Locally guidance and the Cabinet Office in their role as lead for the National Fraud Initiative (NFI).</p> |

| Question | Management Response |
|---|---|
| <ul style="list-style-type: none"> ○ communicate to employees the Council’s views on business practice and ethical behaviour (for example by updating, communicating and monitoring against relevant codes of conduct); and | <p>The Staff Code of Conduct and its appendices set out the standards expected around a range of matters, including the “Nolan Principles Standards of Public Life”, “Gifts and Hospitality”, “Disclosure of Information”, “Relationships”, “Contractors” and “Behaviour during Tendering”.</p> <p>The Code of Conduct is available via the Council’s Intranet and is included as part of the Council’s induction training.</p> <p>The Code of Conduct is regularly reviewed and updated as appropriate, particularly in line with national guidance.</p> |
| <ul style="list-style-type: none"> ○ communicate to the Audit Committee the processes for identifying and responding to fraud or error. | <p>Fraud risks and issues are reported by the Head of Audit and Counter Fraud in the A&CF Plan, the Fraud and Loss Risk Assessment, the Fighting Fraud and Corruption Locally self-assessment checklist, and via regular specific reporting, e.g. updates on specific risks in the Council’s Annual Governance Statement.</p> <p>A suite of refreshed Counter Fraud policies was presented to, reviewed and approved by the Council’s Audit Committee on 29 November 2022.</p> <p>Ad hoc matters requiring a report to the Audit Committee are also prepared by the Assistant Director of Corporate Governance and Strategic Financial Management as required.</p> <p>The Annual Governance Statement identifies the risks linked into the Transparency Agenda.</p> |
| <ul style="list-style-type: none"> ● How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2021/22? | <p>In accordance with the appropriate financial thresholds/scheme of delegation, all reports to the Council’s Committees include formal comments from appropriate statutory officers.</p> <p>Internal Audit reviews whether the Council has adhered to relevant legislation and guidance as part of its ongoing audit arrangements and programmes.</p> <p>Specific training is also arranged by relevant teams; e.g. Legal Services.</p> |
| <ul style="list-style-type: none"> ● Are there any actual or potential litigation or claims | <p>All appropriate matters have been incorporated into the production and review of the Annual Governance Statement and the draft Statement of Account for the financial year 2022/23. The perceived risks in the</p> |

| Question | Management Response |
|---|---|
| <p>that would affect the financial statements?</p> | <p>financial year 2022/23 have been considered and appropriately reported to the Audit Committee.</p> <p>The Audit Committee on 28 March 2023 received a report on the Corporate Risk Register for the period to December 2022 but updated for information available as at March 2023.</p> |
| <p>• What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships. For any new related parties (i.e. any not already disclosed in the previous year's audited financial statements) please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year to 31 March 2020.</p> | <p>The controls in place are:</p> <ul style="list-style-type: none"> • The separate disclosure Note to the Council's Statement of Accounts "Note 12: Related Parties" (which is subject to audit) sets out the key transactions with all related parties. • Members' Code of Conduct. • Members' Register of Interests in line with the 2011 Localism Act. • Member's Allowances' are disclosed in Note 8 to the Council's Statement of Accounts. • Officers' Code of Conduct requires staff to record Gifts and Hospitality in accordance with the Code of Conduct. • Officers' Remuneration is disclosed in Note 9 to the Council's Statement of Accounts. • Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 sets out the relevant information to disclose, together with CIPFA Bulletins on Closure of the 2022/23 Financial Statements. • Internal and External Audit monitor compliance. • The Council operates a Standards Committee. • Levy Bodies are subject to a separate external audit process. • The production of Group Accounts which are subject to external audit. |

| Question | Response |
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| <p>1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2022 – 31 March 2023 (if 'yes', please provide details)?</p> | <p>No, during this period of time (excluding business grants administered by the Council), there has been no significant (i.e., greater than £10k) corporate (in-house) fraud committed by Council staff and contractors, which have required investigation.</p> <p>The Assistant Director of Corporate Governance and Strategic Financial Management throughout 2022/23 has reported on a confidential basis the sensitive</p> |

| Question | Response |
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| | <p>matters it was appropriate to highlight to the Committee including the risks to the Council should there be poor oversight of key partner organisations.</p> |
| <p>2. Do you suspect fraud may be occurring within the organisation?</p> | <p>As at 31 March 2023 all instances of suspected fraud within the organisation had been investigated.</p> <p>The Council is a complex multidisciplinary organisation so there is a potential risk that management is unaware of some fraud occurring.</p> <p>An added assurance that appropriate controls are in place is the opinion, given in the Annual Report of the Head of Internal Audit and Counter Fraud.</p> |
| <p>3. Have you identified any specific fraud risks within the Council?</p> | <p>Fraud risks are captured, reported and monitored via the Fraud and Loss Risk Assessment, the Fraud Response Plan and potential fraud risks are assessed for each audit review.</p> |
| <p>4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively (<i>if 'yes', please provide details</i>)?</p> | <p>Yes. In all financial systems for 2022/23, there are agreed processes to review transactions. The Fundamental Financial Systems reviews support this process.</p> <p>There are issues identified in the operation of some systems which have been highlighted to the Audit Committee and included in the Council's Annual Governance Statement (AGS). Where appropriate, extra audit testing is conducted by Internal and External Audit to provide extra assurance around known issues.</p> <p>Detailed Action Plans are in place, subject to regular follow-up to address issues included in the AGS.</p> |

| Question | Response |
|--|--|
| <p>5. If not where are the risk areas?</p> | <p>As above, potential risks and issues are reported in the Council's AGS and updates are reported to the Audit Committee on a regular basis. Risks are assessed annually and as part of detailed audit planning.</p> <p>The Council continues to experience significant challenges in social care and continues to track the potential risk around these service areas as this is clearly an area of management focus.</p> <p>One disappointment as highlighted in the draft AGS is the lack of progress made in the financial year 2022/23 to improve the control environment for Payroll.</p> <p>Large Capital Programme projects will also provide additional fraud opportunities in areas such as mandate fraud.</p> <p>An issue which has impacted on a minority of Local Authorities is poor partnership governance. The Council monitors its risks via the production of a Partnership Dashboard.</p> <p>The funding provided to assist the wider Government response to the COVID-19 pandemic has changed the risk profile in relation to fraud. The Council has, however, introduced appropriate safeguards into its administration to minimise loss in this area.</p> |
| <p>6. How do you encourage staff to report their concerns about fraud?</p> | <p>The Whistleblowing Policy sets out the arrangements for staff to anonymously report potential concerns and it is included in the Staff Code of Conduct. Following a risk assessment process, the A&CF Team will investigate allegations discretely, agree a course of action and agree recommendations. Where significant issues arise, External Audit will be briefed.</p> |

| Question | Response |
|---|--|
| 7. What concerns about fraud are staff expected to report? | The Whistleblowing Policy includes the reporting by employees of suspected misconduct, illegal acts or failure to act within the Council. The aim of the Policy is to encourage employees and others who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. |
| 8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? | <p>None are recorded. Contract Procedure Rules set out the procedures for procurement and this service is subject to regular review by Internal Audit. No significant issues which will impact the financial statements have been identified in 2022/23.</p> <p>Partnerships and the risk that Council's do not understand their financial risks is an area whereby the work of the Audit Committee will focus in the future work programme.</p> |
| 9. How do you mitigate the risks associated with fraud related to related party relationships and transactions? | <p>As above, the Council's Contract Procedure Rules set out the procedures for Procurement and this service is subject to review by Internal Audit. Other policies (and internal controls) to mitigate this risk include:</p> <ul style="list-style-type: none"> • Members' Code of Conduct. • Members' Register of Interests in line with the 2011 Localism Act. • Member's Allowances' are disclosed in Note 8 to the Council's Statement of Accounts. • Officers' Code of Conduct requires staff to record Gifts and Hospitality in accordance with the Code of Conduct. • The Council operates a Standards Committee. • Levying Bodies are subject to a separate external audit process. |

| Question | Response |
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| | <ul style="list-style-type: none"> • The production of Group Accounts which are subject to external audit. • The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. These details are included in Note 12 to the Annual Financial Statements. In support of this Senior Officers are required to declare interests in companies, organisations and entities with which the Council may interact in order to ensure transparency. |
| <p>10. Are you aware of any entries made in the accounting records that you believe, or suspect are false or intentionally misleading?</p> | <p>No, I am not aware of any entries in the accounting records of this nature. The Council applies a detailed three stage quality assurance process, which incorporates independent/ “fresh eye” review prior to submitting its draft Accounts for publication and review by the External Auditor.</p> |
| <p>11. Are there particular balances in the accounts where fraud is more likely to occur?</p> | <p>The balances of Accounts Payable (AP), Accounts Receivable and Fixed Assets were reviewed twice in 2022/23 as part of the yearly FFS programme of audits. The systems for AP are exposed to the potential risk of bank mandate fraud, whereby a “fraudster” contacts the Council to inform them that their bank details have changed, in an attempt to persuade the Council to make the payment to the erroneous account.</p> <p>Colleagues in both the AP service and Procurement team are aware off these risks and apply manual checks to mitigate them.</p> |
| <p>12. Are you aware of any assets, liabilities or transactions that you believe have been improperly included or omitted from the accounts of the organisation?</p> | <p>No, I am not aware of any assets, liabilities or transactions that I believe have been improperly included or omitted from the accounts of the organisation.</p> |

| Question | Response |
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| | <p>The three stage Quality Assurance process ensures the detailed review of the draft accounts prior to publication and submission to the External Auditors.</p> |
| <p>13. Could a false accounting entry escape detection? If so, how?</p> | <p>This is unlikely given the controls in place for processing transactions.</p> <p>The Council is a complex multidisciplinary organisation so there is a potential risk that management is unaware of some false accounting occurring.</p> <p>An added control in this area is the review by the External Audit team who provide added assurance for transactions which are in excess of the materiality value.</p> |
| <p>14. Are there any external fraud risk factors, such as collection of revenues?</p> | <p>During 2022/23, the collection of revenue from Sundry Debtors, Council Tax and Business Rates was reviewed by Internal Audit as part of the Fundamental Financial Systems audits. No specific fraud risks were identified as a result of these reviews.</p> <p>The external frauds in this area have become more sophisticated as fraudsters use information obtained to test the systems of all Authorities.</p> |
| <p>15. Are you aware of any organisational or management pressure to meet financial or operating targets?</p> | <p>No, I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to myself or to colleagues to meet financial or operating targets.</p> <p>Monthly budget monitoring is conducted with service managers and reconciliations of key balances are conducted monthly, and significant variances are investigated.</p> <p>The Council's Corporate Performance Indicators are reported to Cabinet and recorded via the Council's corporate performance reporting system. Detailed</p> |

| Question | Response |
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| | <p>review is now undertaken by the Performance Overview and Scrutiny Committee.</p> |
| <p>16. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?</p> | <p>No, as above, I am not aware of any inappropriate organisational or management pressure being applied, or incentives offered, to myself or to colleagues to meet financial or operating targets. Monthly budget monitoring is conducted with service managers and reconciliations of key balances are conducted monthly. Significant variances are investigated.</p> <p>As above, Corporate Performance Indicators are reported to Cabinet and recorded via the Council's corporate performance reporting system. Detailed review is now undertaken by the Performance Overview and Scrutiny Committee.</p> |
| <p>17. What arrangements has the Council put in place in response to the Bribery Act 2010?</p> | <p>The Staff Code of Conduct sets out the responsibilities for staff re: Bribery and Corruption.</p> <p>The Assistant Director of Corporate Governance and Strategic Financial Management arranged for in-house training of colleagues in the A&CF Team in relation to the Bribery Act 2010, and works in conjunction with Legal colleagues, where appropriate.</p> <p>As part of the regular review of the suite of Counter Fraud policies the "Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan" was reviewed and revised and approved by the Council's Audit Committee on 29 November 2022. These will be reviewed in 2023/24.</p> |



Report to Audit Committee

Update of Key Developments within the Remit of the Committee

Portfolio Holder: Cllr Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans - Director of Finance

Report Author: Mark Stenson – Assistant Director of Corporate Governance and Strategic Financial Management

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8 June 2023

Reason for Decision

It is considered appropriate to bring to Member's attention the following:

- a) An update on the creation of the Audit, Regulation and Governance Authority (ARGA) as the appropriate body to provide oversight of local public audit within local authorities. This was the governments planned response to the review undertaken by Tony Redmond which made a number of recommendations to improve Local Public Audit.
- b) The Memorandum of Understanding between the Financial Reporting Council and the Department of Levelling Up, Housing and Communities (DLUHC) setting out the agreed priorities for developments within local public audit prior to the creation of ARGA.
- c) The current on-going review by the DLUHC Select Committee of local audit and the key findings to date.
- d) An update on the 2021/22 Statement of Final Accounts and completion of the external audit. It also details the publication of the draft 2022/23 Statement of Accounts for both Inspection and Audit.
- e) The proposed training planned for Members of this Committee in relation to Audit Committee functions and responsibilities.

Executive Summary

This is a general update report to the Audit Committee to inform them of a number of developments, both national and local, which impact on their role in the Council as the Committee charged with governance.

Due to concerns about the timeliness of local audit reporting there are a number of potential developments nationally, and this report provides an update on useful information for Members.

The report also details the progress on the audit of the 2021/22 Statement of Final Accounts and the submission for audit and inspection of the 2022/23 Statement of Accounts. A vital role of this Committee is to approve the audited accounts on behalf of the Council.

The final part of the report sets out the proposed training for Committee Members. A high proportion of items considered over the financial year are technical in nature and this training will assist in the discharge of the governance role.

Recommendation

Members are requested to note:

- a) The update on matters linked into local public audit as detailed in this report.
- b) The updated position on the 2021/22 and 2022/23 Statement of Final Accounts.
- c) The proposed training for Members of the Committee.

Update on Key Developments within the Remit of the Committee**1 Background**

- 1.1 The challenges of Local Authorities obtaining timely audit opinions on their accounts has been widely reported in the public sector. The production of the Statement of Final Accounts (SOFA) has become more complex in part as more technical accounting requirements are introduced into the process. This has challenged both the capacity of a proportion of Local Authorities to produce accounts to a standard for external audit in the timescale specified within the Accounts and Audit Regulations, and the capacity of External Auditors to complete the audit within the agreed timescale.
- 1.2 This report sets out a summary of the plans which are beginning to develop within the Local Audit environment, with the objective of improving the timeliness of reporting the Local Authority Statement of Final Accounts.
- 1.3 The report also sets out the progress made on the audit of the 2021/22 Statement of Final Accounts and the publication/submission of the draft 2022/23 Statement of Accounts for audit. It also sets out the proposed training for Members of this Committee to assist them in discharging their role.

2 Key Updates**The creation of the Audit, Reporting and Governance Authority (ARGA).**

- 2.1 One key recommendation from the Redmond Review was the creation of an independent body to oversee Local Public Audit (i.e. the external audit of Local Authorities and health bodies financial accounts). The response to the Redmond Review by DLUHC was to accept this recommendation with a proposal to create ARGA. This would replace the Financial Reporting Council (FRC) acting as a local leader for local audit.
- 2.2 At present ARGA has not been created as an independent entity. It is awaiting primary legislation and, at present, there is no definite timetable for when this will occur. In order to oversee the transition from a shadow body a Director for Local Audit (employed by the FRC) has been engaged and is developing the response to improve local audit. At present the FRC is acting as the system leader during the shadow period. The Director of Local Audit is currently recruiting staff to enable planned developments to progress.
- 2.3 As an interim measure, since July 2022 DLUHC has acted as interim system leader by establishing and chairing the local audit Liaison Committee of senior stakeholders and by leading work to agree a system wide package of measures to reduce local audit delays. This planned approach is set out in the Memorandum of Understanding which is detailed below in this report.

The Memorandum of Understanding (MoU) between the FRC and the DLUHC.

- 2.4 The responsible Central Government Department for ensuring there is appropriate oversight of the accounts produced by Local Authorities is the DLUHC. As FRC is the shadow leader until the primary legislation is passed, it has agreed an MOU with DLUHC. While the document is not a legal, or binding, document, both parties are committed to working to it. It sets out that the FRC has five areas of responsibility. These are to:

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- Lead a coherent and coordinated response to challenges arising across the system.
 - Facilitate stronger governance across the local audit framework.
 - Lead work to improve competition, bolster capability and market supply.
 - Oversee the entire quality framework for local audit.
 - Report on the local audit system.

2.5 The MoU is attached at Appendix 1 to this report. It expands on what is expected of the FRC in the five agreed areas of responsibility. In accordance with DLUHC being the responsible government department, it sets out their responsibilities and how the the objectives set out in the MOU will be achieved.

The ongoing review by Government Select Committees

2.6 There are two Select Committees at Westminster who undertake the Scrutiny of the timeliness of Financial Reporting and subsequent effectiveness of Local Audit. These are the Public Accounts Committee (PAC) and the Levelling Up, Housing and Communities Select Committee which provides Scrutiny on the performance of local audit. Both Committees have considered evidence linked to local auditor reporting on local authority accounts. This is discussed further below.

Public Accounts Committee (PAC)

2.7 This Committee received oral evidence on the timeliness of local auditor reporting at a session on 16 March 2023. The witnesses giving evidence were the previous Permanent Secretary at DLUHC (who has moved to a new role) the current Permanent Secretary at DLUHC, The Director General for Local Government, Resilience and Communities at DLUHC, The Director of Local Audit at the FRC and Chief Executive Public Sector Audit Appointments.

2.8 There is some interesting information which comes out of the 16 March 2023 PAC session which is attached at Appendix 2. The key points are:

- A recognition that the current situation which has resulted in significant delays to the completion of Local Authority audits will not be easy to resolve;
- As at the time of this session 373 Local Authority audit opinions were outstanding for 2021/22;
- A view that the collapse of Carillion had impacted on what was previously a competitive market for local audit. The outcome being that external auditors are undertaking more assurance work before they give an opinion;
- The importance of the MoU in delivering future efficiencies;
- The procurement undertaken by Public Sector Audit Appointments to appoint future external auditors for Local Government had been challenging;
- The situation in Scotland whereby 4 out of 32 Local Authorities did not meet the deadline for audited accounts is a better picture than England as there is a different regulatory framework in Scotland;
- There is no sanction for failing to achieve the deadline for Local Authorities submitting their accounts, with DLUHC clear they are accountable for rectifying the current system; and
- The creation of ARGA will not initially improve the timeliness of auditor reporting.

Levelling Up, Housing and Communities Committee

2.9 This Committee received oral evidence on the Financial Reporting and Audit in Local Authorities at two sessions on 15 May 2023. The witnesses giving evidence at the first session were Sir Tony Redmond (the author of the Redmond Review), the Director of Local Audit at the FRC and Deputy Chief Executive of the FRC. The second session dealt with academics and the witnesses were the Chief Executive of the Centre for Governance and Scrutiny, an Assistant Professor in Accounting from Durham University and an Emeritus Professor from Glasgow University.

2.10 The interesting points from the first session are:

- Accounting records are an accurate and historical record of spend over 12 months.
- The accounts are vital part of democracy holding public bodies to account for performance;
- The accounts are key for being transparent on financial resilience and sustainability of a Local Authority;
- Local authority accounts are very complex and are difficult to understand from the perspective of a Council Taxpayer;
- In terms of priority under the MOU then the Local Lead for Local Audit will concentrate on developing a workforce strategy to improve the capacity to undertake Local Audit;
- Observations about the role in audit previously undertaken by the Audit Commission and District Audit;
- Overall, on 15 May 2023 outstanding audit opinions stood at 530. This could increase to close to, or over, 1,000 by the end of the year; and
- There are concerns that it is the pace, rather than the direction of change, which is not prompt enough.

2.11 The interesting points from the second session are:

- The preparation and publication of Whole of Government Accounts is running more than 2 years late;
- Public Sector Audit Appointments did a very good job in appointing auditors in a challenging market;
- Local Authority Accounts are very complex for both a high proportion of Councillors and Registered Electors to understand;
- The significant failure in Local Authority accounts is their lateness;
- Views on how Value for Money Auditing should be considered;
- Local audit is a marginal activity for the audit firms. In addition, they have become more risk averse in giving audit opinions.

Final Accounts 2021/22 and the Draft Accounts 2022/23

2.12 The Council has published its draft Statement of Accounts for the financial year 2022/23 by the Statutory deadline of 31 May 2023. Following a revision to the Audit and Accounts deadline this deadline was brought forward from 31 July which was the deadline for the 2021/22 accounts. Nationally within the Local Government sector it appears that a significant number of Authorities have not prepared their accounts by this deadline and, therefore, have had to publish information on their websites that the accounts were not published in accordance with the statutory deadline.

2.13 A report presenting the draft Statement of Accounts will be presented to the meeting of the Audit Committee on 27 June 2022. This will set out the outturn position and any key issues that need to be brought to Members' attention.

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- 2.14 With regard to the audit of 2021/22 accounts, the latest position is that work is on-going to resolve the issues that remain outstanding. At the last Audit Committee meeting, Members were advised of a matter relating to the Greater Manchester Pension Fund (GMPF) audit and timing differences between the data the actuary has used in valuation reports and the pension fund valuation position GMPF has used for its accounts. This had resulted in an understatement of the Pensions Fund assets. In addition to this issue, there is now a wider national challenge with regard to the valuation of Pension Fund assets arising from the 31 March 2022 Triennial Valuation of the Local Government Pension Scheme (LGPS) on the balances reporting in financial statements for 2021/22. The way forward is still to be agreed, however, the Council is obtaining revised valuation reports to cover the period 2021/22 and 2022/23. The accounts will be re-stated and discussions will be held with the External Auditor to agree an appropriate date to complete the audit for 2021/22.

Proposed Training for Members of the Audit Committee

- 2.15 Following the start of the 2023/24 municipal year there are some changes to the Membership of this Committee. As a key Regulatory Committee of the Council which reviews items of a financial nature, which can be very technical, it was thought appropriate to arrange training on 4 and 11 July 2023. This training will be delivered online via Microsoft Teams.

3 Options/Alternatives

- 3.1 N/A

4 Preferred Option

- 4.1 N/A.

5 Consultation

- 5.1 N/A

6 Financial Implications

- 6.1 The financial implications of not having appropriate oversight by an audit process and not getting the accounts signed off hinders the core local government accountability framework (Anne Ryans)

7 Legal Services Comments

- 7.1 N/A.

8 Cooperative Agenda

- 8.1 N/A.

9 Human Resources Comments

- 9.1 N/A.

10 **Risk Assessments**

10.1 There are a few risks to Local Authorities both collectively and individually in not having appropriate oversight of their accounts from a timely and well-resourced external audit detailed below:

- a) The Authorities financial position can change due to unforeseen circumstances undermining previous decision making.
- b) As more accounts are not signed off the workload of the Council and the external auditor increases.

11 **IT Implications**

11.1 N/A.

12 **Property Implications**

12.1 N/A.

13 **Procurement Implications**

13.1 N/A.

14 **Environmental and Health & Safety Implications**

14.1 N/A.

15 **Equality, community cohesion and crime implications**

15.1 N/A.

16 **Equality Impact Assessment Completed?**

16.1 None.

17 **Key Decision**

17.1 N/A.

18 **Forward Plan Reference**

18.1 N/A.

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included as Appendices 1-3
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22 **Appendices**

- 22.1 Appendix 1: Memorandum of Understanding between the Financial Reporting Council and the Department for Levelling Up, Housing and Communities.
- Appendix 2: Public Accounts Committee transcript of oral evidence at session on 16 March 2023.
- Appendix 3: Levelling Up, Housing and Communities transcript of oral evidence at session on 15 May 2023. .

Memorandum of Understanding between the Financial Reporting Council and the Department for Levelling Up, Housing and Communities

2 March 2023

Introduction

A strong, well-functioning local audit system is essential to maintain public confidence in transparent and accountable local democracy. Local authorities must be able to plan, manage their services and base their decision-making on accurate and reliable financial information. As Accounting Officer for local government, the Department for Levelling Up, Housing and Communities (DLUHC) is responsible for ensuring that local audit operates effectively. Local audit is vital to the proper exercise of DLUHC's stewardship role in respect of local government and forms an integral part of the core local government accountability framework; through the audit and timely completion of the Whole of Government Accounts, it is also instrumental to assuring the public sector more broadly.

The Government's priorities for the local audit system are for high quality, relevant audits to be completed on time by a properly resourced audit sector operating within a sustainable market, underpinned by transparency and strong governance. The current local audit system faces a range of challenges, some immediate, others structural and longer term. Sir Tony Redmond's [Independent Review of Local Authority Audit and Financial Reporting](#) (the 'Redmond Review') was commissioned as an opportunity for the Government to consider the effectiveness of the local authority financial reporting and audit regime created through the Local Audit and Accountability Act 2014¹. The Redmond Review identified the dispersal of oversight across the local audit system as a key problem. To address this, Sir Tony recommended the establishment of a system leader to consolidate functions and drive a coherent, whole system response to challenges arising.

The Department's 2021 Spring Update on the Redmond Review proposed that the Audit, Reporting and Governance Authority (ARGA), which the Government intends will replace the Financial Reporting Council (FRC), should act as system leader for local audit. Further detail on these proposals were published in [Local Audit framework: technical consultation](#). The Government intends to formally establish ARGA through primary legislation, in advance of which shadow system leader arrangements will start at the FRC. Since July 2021, DLUHC has acted as interim system leader by establishing and chairing the local audit Liaison Committee² of senior stakeholders and by leading work to agree a system wide package of measures to reduce local audit delays (further detail below).

¹ The Redmond Review formed the post-implementation review of local audit aspects of the 2014 Local Audit and Accountability Act. Terms of Reference can be viewed [here](#).

² <https://www.gov.uk/government/groups/local-audit-liaison-committee>

Purpose

This Memorandum of Understanding (MoU) sets out what has been agreed between DLUHC and the FRC on the roles and responsibilities the FRC will take on as system leader during the shadow period, which will precede the intended establishment of ARGA through legislation, when full system leadership is intended to commence.

The process of local audit is complex and the arena in which it is conducted is dynamic. To respond to challenges and opportunities, the local audit system needs a leading voice and a coordinating hand.

To fulfil this role the FRC will have five areas of responsibility as system leader:

1. Lead a coherent and coordinated response to challenges arising across the system.
2. Facilitate stronger governance across the local audit framework.
3. Lead work to improve competition, bolster capability and market supply.
4. Oversee the entire quality framework for local audit.
5. Report on the local audit system.

This MoU does not alter or enhance the existing statutory duties of either party. DLUHC will remain responsible for local government reporting requirements, the local government accountability framework, adherence to the Best Value duty, stewardship and policy decisions. The FRC will have no additional statutory powers or decision-making authority. The shadow period will enable an assessment of how system leader arrangements work in practice, therefore we will plan to review the MoU after one year of shadow arrangements.

This document sets out the over-arching responsibilities of the shadow system leadership role for local bodies in England and the nature of the relationship between DLUHC and the FRC; with DLUHC being the counterparty to this MoU with the FRC. DLUHC also liaises with the Department of Health and Social Care (DHSC) and National Health Service (NHS) England, the Department for Environment, Food and Rural Affairs (DEFRA), the Home Office (HO) and His Majesty's Treasury (HMT).³

While this document is not a legal or binding agreement, both DLUHC and the FRC are committed to working to it.

The FRC's responsibilities as system leader during the shadow period

As set out above, the Government's priority for an effective local audit system across all local bodies is for high quality and useful audits to be completed on time by a properly resourced audit sector operating within a sustainable market, underpinned by transparency and strong governance. Delivery of this will depend on addressing both immediate challenges and structural issues, which will require longer term work.

The local audit system leader will have five areas of responsibility in support of the Government's priorities during the shadow period. Shadow local audit system leader work will be led by the Director of Local Audit who will lead a dedicated local audit department within the FRC. The Director and the department they lead will have sight of all local audit-related work at the FRC and

³ This reflects that audited bodies (and related local audit processes) covered by the 2014 Local Audit and Accountability Act include NHS bodies and a broad range of local authorities such as Fire and Rescue Authorities, Police and Crime Commissioners, National Parks authorities and drainage boards.

lead or be consulted on decisions overlapping with local audit, including where dispersed across other functions within the organisation. The Executive Director of Supervision will report on local audit to the FRC board, to which (subject to the established process for appointments to the FRC board) a member with responsibility for local audit and commensurate experience will be appointed.

1. Lead a coherent and coordinated response to challenges arising across the local audit system, working across and between organisations as required

DLUHC remains committed to delivering on the Redmond Review, which identified the need for a system leader to enable a coherent and consistent response to challenges across the system. The work which DLUHC has led as interim system leader to develop a system wide approach to delays in local audit completion is an active example of a system leader response to a challenge arising across the local audit system. The Department also recognises that the many elements of the local audit process (including local authority financial reporting and associated governance) and the dynamic arena in which local audit is conducted means that challenges and opportunities – and the associated response to those – will change.

To determine its policy priorities, the FRC as system leader will need to identify both short term and long term systemic challenges, triage those flagged through the system and advise DLUHC of its policy priorities. As Accounting Officer for local audit, DLUHC will send the system leader an annual Remit Letter setting out the priorities which the Department judges should inform the system leader’s policy development for the period, in line with the roles and responsibilities set out in this document. The system leader will be required to publish a reply to the Remit Letter within a specified timeframe in which it will set out its response and the actions it plans to take. A Remit Letter may also be sent by exception, for example where unexpected circumstances or challenges impact the local audit system.

To lead a coordinated policy response, the FRC will need to:

- a. Act as a visible leader, articulating clear priorities and recommendations. Be responsible for generating, driving and overseeing an integrated response to challenges which arise across the system or improvements which could be made. To deliver this, the FRC will actively lead discussions and commission work across a wide range of stakeholders as required; the system leader will monitor progress on the delivery of measures agreed, but these will remain the responsibility of individual organisations. The work DLUHC led to produce the December 2021 package of [Measures to improve local audit delays](#) is an example of driving such a systemic approach, with a range of measures agreed to be delivered by individual organisations.
- b. Support broader and relevant work led by any member of the Liaison Committee. The system leader will be working with the four other bodies which make up the local audit system: the Chartered Institute of Public Finance and Accountancy (CIPFA), the Comptroller & Auditor General and the National Audit Office (NAO), the Institute of Chartered Accountants of England and Wales (ICAEW) and the Public Sector Audit Appointments Ltd (PSAA). The system leader will not lead or commission all work across the local audit system, but in order to drive forward whole system reform it needs to be abreast of and support or feed into work underway by members of the Liaison Committee.

- c. Support broader and relevant work led by Government, and where required, engage with or make recommendations to DLUHC to contribute to policy development. In cases where an organisation within the system cannot take the action which the FRC concludes is required, Government may need to act. The FRC as shadow system leader will be required to advise DLUHC of such instances, setting out the rationale for any proposed action, which DLUHC will consider.
- d. Establish and maintain a clear distinction between the exercise of its existing regulator role within the system and its role as overarching system leader for local audit. Stakeholders need to be clear 'which FRC' they are engaging with on issues which may overlap with regulatory functions where ethical walls may be required. Equally, to assure a holistic integrated approach which recognises the overlapping imperatives across the system, as system leader the FRC will also need to make and harness connections with those separate functions within its own organisation.
- e. Build strong relationships with stakeholders across the local audit process including sector bodies, establishing networks, reference groups or working groups as required. For example, as interim system leader DLUHC convened a timeliness working group to examine current challenges including concerns raised by auditors over the reliability of local authorities' valuation of infrastructure assets.
- f. Work to establish requisite agreements and gateways between itself and organisations across the system for the timely sharing of high quality information, intelligence and data needed to investigate the root causes of challenges across local audit and to produce targeted and meaningful reports on local audit.
- g. At a suitable juncture during the shadow period, assume the chair of the Liaison Committee of senior stakeholders (currently held by DLUHC), to lead its programme and risk management. Ahead of the establishment of ARGA, and in consultation with DLUHC and Liaison Committee members, the FRC will conduct work to consider the optimal shape and make up of future Liaison Committee membership, and the committee's terms of reference. The committee will be a key conduit through which networks and stakeholders can escalate issues, agree actions and members can report on work underway across the system.
- h. Work closely with DLUHC to explore and keep under review how the entire local audit process (including financial reporting and financial management within local authorities and the NHS) can be brought into whole system work on improvements, reform and solutions to local audit.
- i. Give evidence to the Public Accounts Committee and departmental Select Committees as required on matters related to local audit.
- j. Act as an advocate and champion for local audit, within the broader statutory audit landscape (including forums) and across government as required.

2. Facilitate stronger governance across the local audit framework

Stronger governance across the new framework should include harnessing the Liaison Committee to facilitate decision making across the local audit system to affect positive change and hold stakeholders to account.

Improved coordination and collaboration should be fostered, whereby changes likely to impact the system are shared at system level in a timely manner in advance of

implementation (for example, regulatory changes or changes to the fines regime likely to impact the market).

- a. DLUHC will remain responsible for the procurement arrangements for local audit. This includes overseeing the Appointing Person (currently PSAA), which has been granted authority by the Secretary of State to appoint auditors to local government bodies that wish to opt into its scheme.
- b. The FRC will need to work with DLUHC and the Appointing Person to ensure that objectives for local audit procurement⁴ are aligned with the objectives of the wider system, which also includes a range of local and health bodies who appoint their own auditors.
- c. Following the awarding of contracts for 2023/24-27/28, PSAA will continue to support the system through managing contracts on behalf of c.470 local authorities and we expect the system leader to take an active interest in these areas.
- d. In the longer term, as we approach the next appointing period (i.e. from 2028/29 onwards), we expect the system leader to facilitate input from the Liaison Committee into any procurement strategy being developed in this period.

The Department has committed to keep the procurement arrangements for local government audit under review, so this system leader responsibility may change accordingly.

3. Lead work to improve competition, bolster capability and market supply

As set out in DLUHC's December 2021 package, market sustainability is a long term, complex challenge. Leading a holistic, system wide approach to this will require the system leader to work with stakeholders across the system and beyond to develop a clear view of the component and overlapping elements of this issue across all local bodies and develop a programme to address these.

The system leader will lead work to address competition and capacity in the market. This will encompass a spectrum of activities, including:

- a. Building on the immediate capacity and capability work which has been led up to now by a working group of the Local Audit Monitoring Board (LAMB) and through the broader suite of actions proposed in the December 2021 package of *Measures to improve local audit delays*;
- b. Starting immediate work with DLUHC and audit firms on a workforce strategy committed to in *Measures to improve local audit delays* published in December 2021.

Feeding into or leading elements of the wider policy work which it is intended that once established ARGA will conduct on the statutory audit market in support of its overarching statutory competition objective.

⁴ The objectives of the procurement strategy for the second appointing period can be accessed [here](#).

4. Oversee the entire quality framework for local audit

In the current local audit system the quality framework is dispersed across the Comptroller and Auditor General (who sets the Code of Audit Practice, assisted by a dedicated team at the NAO) and the FRC, which is responsible for the Audit Quality Review framework and professional oversight.

These responsibilities will continue during the shadow period, but when ARGA is created through intended primary legislation, it is the Government's intention that the Code of Audit Practice will be transferred from NAO to ARGA, which will then oversee the entire quality framework as system leader.

- a. During the shadow period the FRC will need to prepare for the intended transfer of the Code of Audit Practice and make arrangements for maintaining the associated activities conducted in support of the Code which the Government has committed to continue.

The Government has committed to conduct a post-implementation review of changes to the Value for Money judgement arrangements introduced in the 2020 update of the Code of Audit Practice, to assess whether these have led to more effective external audit consideration of financial resilience and value for money matters.

The Value for Money judgement component of the Code of Audit Practice is a distinctive element of local government audit and integral to DLUHC's assessment of risk to inform its Accounting Officer and stewardship functions.

- b. During the shadow period the FRC will work with the NAO to develop a post implementation review, which the Government has provisionally agreed should take place within three years of the updated Code change, or as soon after as feasibly possible.

5. Report on the local audit system

There is currently no requirement for annual reporting on the functioning of the local audit system and what broad trends or issues local audits may be surfacing in a single year. The Redmond Review recommended that reporting on local audit should be a responsibility of the system leadership and responses to the Local Audit Framework: technical consultation strongly supported the proposal that there should be annual reporting on the local audit system.

To report on the local audit system the FRC will need to:

- a. Lead work to report annually, in the public sphere, on local audit: on timeliness, on the findings of local audit, overall trends/patterns emerging from local audits and the state of the local audit market.
- b. The system leader's reporting on local audit should itself be timely, evidence-driven and should relate to the local audit cycle. The intelligence it provides on the findings of local audit should be current enough to constructively inform both the sector and

DLUHC's stewardship and Accounting Officer functions, to which end it should liaise closely with the Office for Local Government, once established, on data sharing.

- c. The FRC will set out the scope of reporting (including for health audit and the broad range of local audit processes), how this will be conducted, commissioned and convened and what the outputs will be, determine the data local audit stakeholders will need to share to enable its planned reports and agree gateways for data to be shared on a timely responsive basis.
- d. The FRC will continue to produce an annual report on the findings of its Audit Quality Reviews. The system leader will also work with other organisations as it considers appropriate, proposing and feeding into thematic reviews and assessments.

The Comptroller and Auditor General will continue to have a duty to produce Value for Money studies across government and local government; the Comptroller and Auditor General has also reported on the timeliness of local audit. The findings of these (and any accompanying recommendations made to DLUHC or His Majesty's Treasury) should be reflected in the system leader's reporting on the local audit system.

DLUHC responsibilities during the shadow period

As the Accounting Officer for DLUHC the Permanent Secretary is responsible for the core local government accountability framework and for maintaining the effectiveness of the local audit system framework. DLUHC will also remain responsible for adherence to the Best Value duty, stewardship, local government financial reporting requirements and policy decisions.

DLUHC is committed to supporting the FRC throughout the shadow transition period during which it will fulfil the following responsibilities; both parties have agreed to governance and assurance standards.

- a. DLUHC will commission work as required (directly and through the Remit Letter) and work with the system leader to review progress on its responsibilities and activities.
- b. The FRC's role as shadow system leader for local audit will be funded directly by Government under a process to be agreed by both parties (and without which funding the FRC will not be able to carry out the role).
- c. DLUHC will continue to develop policy on local audit and accountability to support the Department's Accounting Officer function and stewardship work.
- d. Subject to ministerial clearance, DLUHC will also undertake policy work as commissioned by the FRC where there is a need for ministerial decisions or statutory action in the sector.
- e. DLUHC will consult the system leader on any proposed changes to the local audit system.
- f. DLUHC will engage in consultations conducted by the system leader on future policy/aspects of the system leader role or wider issues of local authority financial reporting and audit.
- g. DLUHC and the FRC will work together to agree public-facing comms where required on systemic issues. This will not cover the communications the FRC conducts in its regulatory, supervision and enforcement capacity.
- h. DLUHC will respond in a timely fashion to commissions/requests from the system leader.
- i. DLUHC will lead on engagement and attendance at Public Accounts Committee hearings, supported by the FRC.
- j. DLUHC will continue to oversee the Appointing Person for local audit, as specified by the Secretary of State.

- k. DLUHC will continue to lead on the procurement and establishment of the Technical Advisory Service and Local Audit Qualification in alignment with the capability, capacity and workforce strategy work led by the system leader.
- l. DLUHC will continue to chair the Liaison Committee in the early shadow period, ahead of passing the chair to the FRC at a suitable juncture to be agreed.
- m. DLUHC will continue to liaise with DHSC and NHS England to develop and implement policy for local audit.
- n. During the shadow period, DLUHC will continue to convene the Local Audit Monitoring Board (LAMB).

Governance and assurance

The governance mechanisms DLUHC and the FRC have committed to for local audit system risk and for system leadership programme delivery are attached in summary diagrams at Annexes A and B.

DLUHC and the FRC are committed to the following governance and risk management arrangements to support their respective roles during the shadow period:

- a. In addition to the activities set out in the MoU, DLUHC will set out policy priorities in a Remit Letter to be sent annually and by exception where circumstances require.
- b. The FRC's Annual Report will include a discrete section on local audit system leadership.
- c. DLUHC's reliance on the FRC to lead the local audit system during the shadow period will be set out and published in the DLUHC's Annual Report and Accounts; and the Accounting Officer System Statement (specifically the annex on Local Government).
- d. The FRC will respond to any information commissions from the DLUHC within 10 working days.
- e. The FRC will engage constructively to meet any *ad hoc* monitoring requests from DLUHC.
- f. The FRC will inform DLUHC of any significant delivery concerns or financial risks as they arise.
- g. Accounting Officer and CEO meetings will be held every 6 months.
- h. Senior official meetings will be held every quarter between DLUHC's Director General for Local Government, Resilience and Communities and the FRC's Executive Director of Supervision, with directors in attendance.

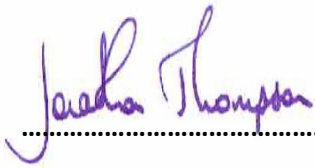
Quarterly programme oversight meetings at director level will cover but not be limited to:

- a. Financial reporting and financial forecasts of the FRC team.
- b. Business project and programme management plans – progress against delivery.
- c. Key risks including risk owner and mitigations.

Monthly meetings between the FRC Director of Local Audit and DLUHC Director of Local Government Policy on local audit system leadership will cover but not be limited to:

- a. Progress against responsibilities.
- b. Progress against Remit Letter priorities.
- c. Liaison Committee risk register management.
- d. Policy proposals.
- e. Policy proposals which need DLUHC support.
- f. System governance.
- g. Local audit completion figures. This will require the provision of high quality and timely data to the FRC by other stakeholders in the system.

Signatories



..... for the Financial Reporting Council

Name: Sir Jonathan Thompson

Description: Chief Executive Officer

Date: 28/02/2023



..... for the Department for Levelling Up, Housing and Communities

Name: Catherine Frances

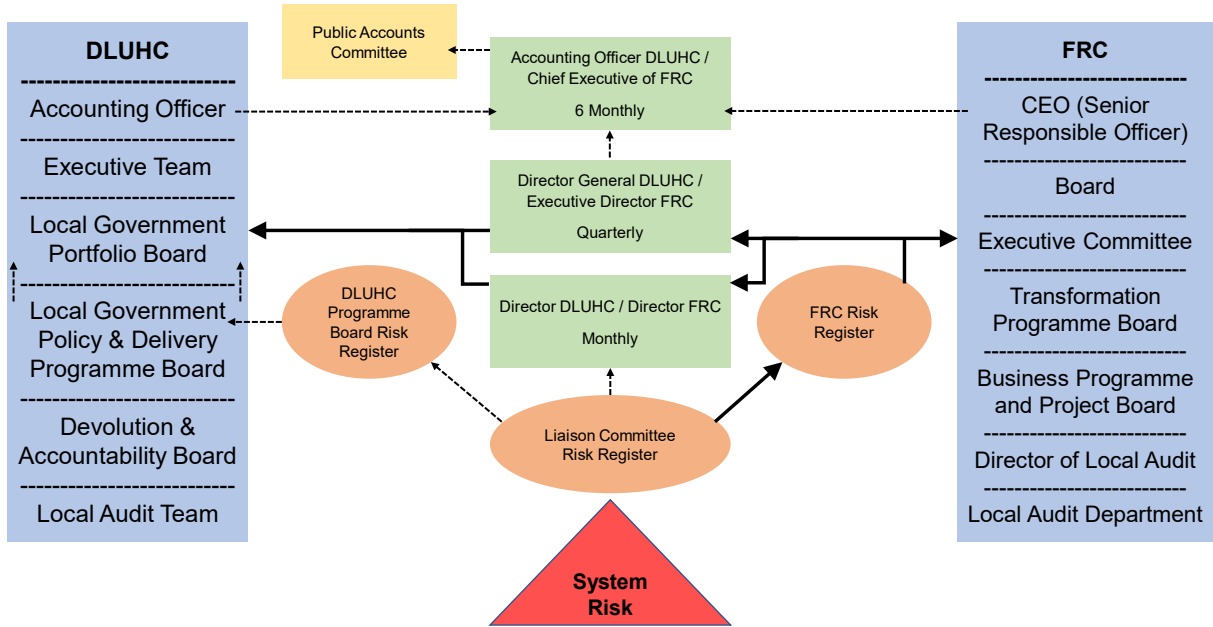
Description: Director General, Local Government, Resilience and Communities

Date: 02/03/2023

Annex A

System Risk

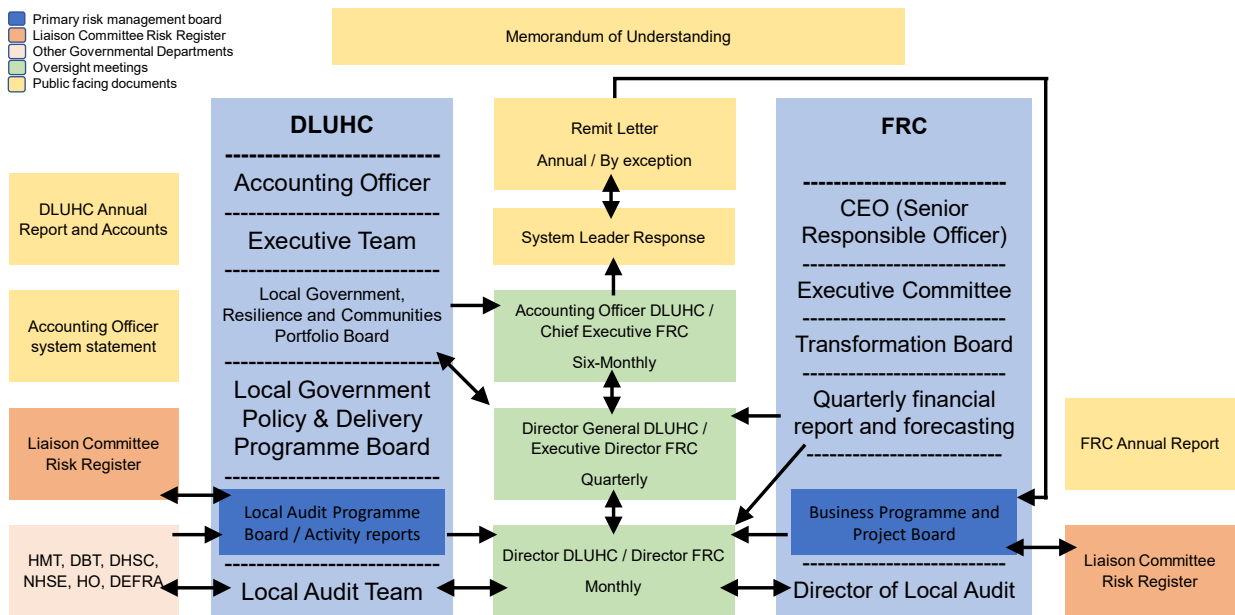
This diagram sets out the governance for risk management of local audit system risk:



Annex B

Programme Risk

This diagram sets out the oversight of programme risk during shadow system leadership:



Public Accounts Committee

Oral evidence: Timeliness of local auditor reporting, HC 995

Thursday 16 March 2023

Ordered by the House of Commons to be published on 16 March 2023.

[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Olivia Blake; Dan Carden; Sir Geoffrey Clifton-Brown; Peter Grant.

Gareth Davies, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Vicky Davis, Director, NAO, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1 - 100

Witnesses

I: Jeremy Pocklington CB, former Permanent Secretary, Department for Levelling Up, Housing and Communities, and Permanent Secretary, Department for Energy Security and Net Zero; Sarah Healey, Permanent Secretary, DLUHC; Catherine Frances, Director General Local Government, Resilience and Communities, DLUHC; Neil Harris, Director for Local Audit, Financial Reporting Council; Tony Crawley, Chief Executive, Public Sector Audit Appointments Ltd.

Report by the Comptroller and Auditor General

Progress update: Timeliness of local auditor reporting on local government in England (HC 1026)

Examination of Witnesses

Witnesses: Jeremy Pocklington, Sarah Healey, Catherine Frances, Neil Harris and Tony Crawley.

Chair: Welcome to the Public Accounts Committee on Thursday 16 March 2023. Today, we are looking at the challenging issue of local audit, which is on a knife edge at the moment, with only 12% of local government bodies—local councils and police and fire authorities, among others—receiving their audit opinions in time to publish their 2021-22 accounts. A number of councils have had delays in audit opinions over a couple of years. This is hugely important for local taxpayers and citizens, and for the councillors who have to make decisions about how budgets are set without that audit opinion, which is, on the face of it, pretty shocking. It is something that this Committee has looked at a number of times. This also has knock-on effects on other parts of how Government work.

We want to ask our witnesses today what is happening since the Redmond review was put in place. We have now seen some of the architecture that he recommended established, and we want to ask what is being done to speed up and sort out the local audit market and make sure that local citizens are not kept in the dark about what is happening with their local council expenditure.

I would like to welcome our witnesses. A warm welcome to Sarah Healey on her first outing to us as the Permanent Secretary at the Department for Levelling Up, Housing and Communities, where she has moved to from the former DCMS.

Just for everybody to catch up, Jeremy Pocklington, who was the Permanent Secretary at the Department for Levelling Up, Housing and Communities, is now at the Department for Energy Security and Net Zero. You might tell us how to pronounce your acronym in a moment, because none of us can. He is here because, of course, of his previously held post and because he covered this with us as a Committee before. This will be his last outing in front of this Committee, we hope, as does he, as former Permanent Secretary of DLUHC.

Catherine Frances is a regular visitor to this Committee and is the director-general for local government, resilience and communities at the Department for Levelling Up, Housing and Communities. With the next change of Government machinery, maybe shorter titles would be a good recommendation.



We are really pleased to welcome, for the first time in front of any Select Committee of the House of Commons, Neil Harris, who is the director for local audit at the Financial Reporting Council, which is an absolutely key post in the new system for making sure that public audit is delivered properly. Tony Crawley is chief executive at Public Sector Audit Appointments Ltd, which has a really key role in this as well. Thank you very much indeed.

I want to thank those who put in evidence. We have had some really interesting evidence from various bodies on the local government side and from the private audit side, as well as others. Before we go any further, I just want to ask for declarations of interest.

Peter Grant: I am a qualified member of the Chartered Institute of Public Finance and Accountancy, which has a significant role in local authority audit and elsewhere.

Sir Geoffrey Clifton-Brown: I am a fellow of the Royal Institute of Chartered Surveyors, which would have an interest in any changes to valuation of property.

Olivia Blake: I think everyone knows this one, but I am the daughter of Baroness Blake, who is currently doing some work for the Department on the Liverpool advisory panel.

Q1 **Chair:** I have nothing other than that I chair the Public Accounts Committee and have an interest in this.

Before we go any further, I want to just get the current situation. Ms Healey, how many local government bodies will publish their 2022-23 accounts on time?

Sarah Healey: To kick off with, we have done a huge amount that you have previously discussed with the Department in order to address some of the problems with local government audit. It is a complicated situation; it is a complicated set of problems in different parts of the system at one time. The Department has built up action on all of those things, and I am sure that we will talk about some of this during the course of this hearing.

Since the last time the Department appeared in front of you, a few quite significant things have happened, which we think will assist in future in the development of local audits. One in particular is the procurement of a new framework for the production of audits, but that is not going to affect those underway. One of the challenges is that we are still operating in a situation where the timeliness of current local audit is affected by the backlogs that have been built up over time. Local bodies cannot complete their current audits until their past audits have been completed. As you mentioned, for 2019-20, when the deadline originally hit, it was a very low percentage—only 9% in 2020-21 and only 12% in 2021-22—but the fact is that there has been progress with the backlog.

Q2 **Chair:** What numbers will be reporting on time?



Sarah Healey: I am not going to predict a number for the percentage of audits this year.

Q3 **Chair:** Is it going in the right direction?

Sarah Healey: We would be disappointed if the numbers were as low as they have been in the last couple of years.

Q4 **Chair:** How many audit opinions are currently outstanding?

Sarah Healey: There are 373 currently outstanding for 2021-22.

Q5 **Chair:** Mr Pocklington, we covered this when you were Permanent Secretary, so do you want to just explain a bit more what went wrong that means that we have this backlog? It is not Covid; we need to be really clear about that. You were the Permanent Secretary during that time, but it is not really down to Covid at all, just to be absolutely clear.

Jeremy Pocklington: It is an incredibly challenging situation. It is a combination of factors. First of all, it reflects the impact of wider changes in the audit market that are well known and ultimately stem from corporate failures like Carillion. That has led to increased expectations, stronger regulation of the sector, and increasing demands on auditors.

That, in turn, led the Department to ask Sir Tony Redmond to undertake his review looking at the local government aspect of that. The changes stemming from Carillion happened at the same time as capacity was, essentially, reduced in the local government audit market, compounded by what was, in some ways, a very effective procurement exercise that was run at the time, which led to a reduction in costs and in money being taken out of the sector. Audit fees fell significantly between 2014 and 2018.

You have a combination; there are higher standards at a time when the fees have come down. Although the Department was able to make some changes to enable fees to be varied, it was still a relatively inflexible system, which meant that there was a lack of capacity in the local government audit system. It is important that the Committee and the public understand that it was compounded also by a lack of resources in local government, and a lack of expertise, as ever with local government, in some local authorities.

Q6 **Chair:** We want to look forward a lot in this session, because it is vital, and Mr Harris is leading that drive as we go forward, as we know. Going backwards, you were in the hot seat during a lot of this time. Was DLUHC asleep on the job in not seeing these problems coming and trying to make sure that they were tackled more quickly?

Jeremy Pocklington: I do not accept that. Over the last few years, the Department has been very focused on this. It is a deeply challenging systemic issue that requires not just the Department and Government, but also auditors, local government and the various regulatory bodies, to all continue to work together.



It was not possible to foresee the changes in the audit market that came from Carillion and Patisserie Valerie, but the action that the Department has taken has focused on both the long-term strategic changes that we need, which we are now bedding in, and shorter-term changes in order to relieve bottlenecks and problems as they have arisen.

Q7 Chair: We know that there are what you could call short-term sticking plaster approaches to cover the gap, but going back, there are, exactly as you say, lots of moving parts in this, which really puts DLUHC at the centre of making sure that the system works and predicts where the problems will be. The problems were not just around Carillion and Patisserie Valerie, and some of the private sector challenges. The fees reduction and the lack of public auditors in the pipeline in the profession were not directly your line responsibility, but DLUHC had the system lead responsibility. Although Sir Tony Redmond did a great review, a lot of the discussion around that was delayed. It took some time for his report to be implemented.

Jeremy Pocklington: I do not accept that. Ultimately, pre-Carillion, there was a competitive market for local government audit. That led to commercial firms bidding for work and a very significant reduction in cost. I do not think that, at that stage, the changes in the audit market were foreseeable. Since then, the Government and my Department have acted with a great deal of energy over the last three years to address this. Covid was a factor and did delay Tony Redmond's work. Unfortunately, that happened. I do not want to overstate that, but it was a factor.

The Department took on the system leadership role in 2021 and has been working very actively to pull together all the different parts of the system, through the liaison committee but also through regular bilateral dialogue, and doing everything we can to tackle these delays. There are the long-term changes, such as establishing the FRC and, in future, ARGA as the system leader, changing the procurement, and a plan to build workforce capacity, but also shorter-term changes, such as enabling the PSAA to vary fees, putting more money into the system, and further variations on accounting standards in order to enable audits to progress.

Q8 Chair: We are going to go into some of those things in more detail. Ms Healey, you are hoping that it will go in the right direction. The audit deadline for 2022-23 has been pulled forward from November to September; the aim is to get it further forward at each stage. As you are watching and hoping, what measures are you looking for before September, so that you have an idea of what the problem is going to be?

Sarah Healey: We are keeping a close eye, via the liaison committee that Ms Frances chairs, on feedback from local authorities about what is happening within authorities on audit. We are keeping a very close tally of numbers as they change and as the backlog in audits goes down, because the backlog is, as I said earlier, materially relevant to what it is possible to do in the current circumstances.



When we get feedback about things that are holding up the delivery of local audits, we do act on them. The statutory override that we put in place in December, for instance, was directly in response to feedback that there was an issue with the valuation of infrastructure assets, and we will always take that kind of action. We are always open to taking new action that we think will enable things to make progress.

Q9 Chair: How often have you had to use that override since you introduced it?

Sarah Healey: I am not aware of how often we have used it.

Catherine Frances: The override applies for auditors to override. They themselves can choose not to apply that valuation. They are taking it through now in the audits that they are completing.

Q10 Chair: Do you have any idea of how many times it has been or is likely to be used?

Catherine Frances: No, because that is what is coming through now as the audits are being unblocked.

Q11 Chair: You must have some intelligence.

Catherine Frances: Our soft intelligence from the sector is that we expect this to apply in lots of cases. What you do not have from the sector here—by the sector, I mean the combination of local government and audit practitioners—is a single version of the truth of what holds up each individual audit. That is for quite legitimate reasons. In some cases, it may be an issue with the council; in others, it may be an issue with valuation. We have written out to both auditors and local government and said, “Please put your heads together. Please produce a robust plan between yourselves and jointly with the FRC”.

We are already working on next steps, and we now need to ask all of our local partners to roll their sleeves up. It is a strained and difficult audit market, but it is clear that, over the next few years, some companies know that they are leaving and others that they are staying, and there are some new entrants in there too. Councils have funding certainty. The building blocks are in place, but they all need to roll up their sleeves and work out what they can do.

Sarah Healey: It is worth saying—this is precisely what Ms Frances said reflects—that the role of the system leader is absolutely vital to all of this, because it is about identifying that intelligence. It is about understanding the moving parts between local government and audit, the standards that are being applied, and all of the different players in this system, identifying early and quickly where there are problems and barriers that can be unlocked either by the Department or by others—for instance, the NAO’s very helpful signal about the use of the value for money statement to enable accounts to be signed off more quickly. That role is absolutely critical.



You will know that we signed a memorandum of understanding with the FRC.

Chair: We got notice of that only at 6.30 last night, but well woven in, Ms Healey.

Sarah Healey: It was a really important step in handing over responsibility to the FRC on that. Neil Harris has been in place for a little while now to set up that function, but it is precisely so that we can tackle, as we go, any issues that arise and that we do not know about in the production of current audits in order to unblock those issues.

Q12 **Chair:** Being a cynic and having covered this quite a lot on this Committee, with a number of us having been in local government as well, it just feels like the system went very badly down, and that this is all just trying to play catch-up, to get it back in order.

Mr Harris, you now have this critical role. Having someone of your calibre come into it is particularly heartening, given that we have been worried that the role was weak. Do you have any comments on what you have just heard? How confident are you that you have the powers you need to do what you need to do?

Neil Harris: First of all, thank you very much for the invitation to my first Select Committee.

Chair: It is nice that you thank us. You do not have an option, but there you go.

Neil Harris: I am also absolutely proud to be the FRC's first director of local audit, and to be taking responsibility as we become the shadow system leader for local audit. It is a sector that I am passionate about. I have worked in it for over 20 years. As you say, Chair, I have had a deep level of expertise and knowledge of the system in my role as key audit partner and district auditor, but I have also worked very collaboratively, I like to think, across all system partners, including the local government and NHS sectors. I am very proud to be taking on this role.

I have been in place for six months. I recognise the size of the task: convening and bringing everybody together, and co-ordinating what has been—and still is, to an extent—a fragmented system. From my perspective, it is really critical now that the whole local audit system works together with purpose and speed to address the local audit challenges. I recognise a lot of what I have heard. I would say on behalf of the FRC that ARGA cannot come in quickly enough.

Q13 **Chair:** We know what these mean, but it is the Financial Reporting Council. Do you want to just spell out each acronym?

Neil Harris: ARGA is the Auditing, Reporting and Governance Authority. As far as we are concerned, ARGA cannot come in quickly enough, because we will become the shadow system leader, but we are operating only in shadow form. We are very clear, and have been in the public domain very recently on the broader corporate audit reforms, that ARGA



needs to come in as soon as possible. We are ready to take on those statutory responsibilities. This role needs statutory underpinning, but the memorandum of understanding provides a good framework for how we will be working across the system before ARGA. When ARGA comes into place, we will be taking on responsibility for the code of audit practice.

I would make two comments about understanding whole-system risk. You need to look at the position not just in local government but in the NHS as well. Local audit, from my perspective, needs to cover both local government and the NHS. Unless you have a holistic understanding of whole-system risk, there is a risk that, if you take one measure in one direction, it has an impact somewhere else.

Q14 Chair: We on this Committee have certainly highlighted that public auditors can move from one sector to another and it does not help the whole system.

Neil Harris: We need to understand that, and it is a critical year for the NHS. Finally, the granularity of information we need in order to understand the current position on the backlog is critical. There is a responsibility on local authorities and auditors, as Ms Healey has already set out.

Q15 Sir Geoffrey Clifton-Brown: I would just like to follow up your question, Chair, on what DLUHC was doing, and come to you, Mr Pocklington. Just to remind everybody looking in on our proceedings, high-quality audit is essential for public trust in how taxpayers' money is spent. It provides transparency and accountability to both taxpayers and their local government elected representatives.

Mr Pocklington, you took over your previous role in 2020. If I could take you to figure 4 of the NAO Report, there was a clear trend well before 2020 that the number of local government audits being done on time was declining, particularly in 2018-19 compared to 2017-18.

I know that we do not want to go backwards, as the Chair has said, but it is important to learn lessons. In your answer to the Chair, you concentrated on the problems of the local government audit market, but, of course, as Catherine Frances has made clear, there are other parties to this. There is the regulator, but particularly local government has to get its audits into such a state that they can be audited. When you took over in 2020, what action did you take to look into what was already an emerging problem?

Jeremy Pocklington: I took over in March 2020. The context is that I took over just as lockdown was happening and Covid was the overwhelming focus of the Government and the country. I hope that the Committee will understand that that was the overwhelming priority at the time.

However, we had already started Sir Tony Redmond's review, so the Department had already, under my predecessor, looked at what action needed to be taken and had recognised that this needed a whole-system



approach in order to address it, rather than it being something that the Department could fix simply acting by itself and overnight.

By that stage, although I do not particularly want a long discussion around local government finance in this hearing, we had already started to unwind some of the impact of consolidation during the coalition Government, so the Department had already recognised the need to put some more resources into local government in order to ensure that it had the capacity that it needed.

The Department was already taking action when I took over the role, and has continued to do so through the last three years, both of the long-term nature and of the short-term nature that we have discussed.

Q16 Sir Geoffrey Clifton-Brown: Thank you for that answer. Let us move on, although I want to come back to the role of local authorities.

Jeremy Pocklington: There is a role there. It is a very important role.

Sir Geoffrey Clifton-Brown: I agree with that, and thank you.

Chair: And we got good evidence on that.

Sir Geoffrey Clifton-Brown: But I will want to come back on that, because they are an important part of all of this. Perhaps turning to you, Mr Harris—and congratulations on your new job—as the incoming system leader, what are your immediate priorities?

Neil Harris: Our immediate priorities in the short term are to get a view on whole-system risk. In my previous answer, I mentioned understanding the challenges, not just in local government audit but in the NHS too. I am very keen to understand the granularity of the issues that are causing the delays in the system at the moment, so that if, working with DLUHC colleagues, we propose any additional measures to address that beyond the statutory resolution on infrastructure assets, we have confidence that that will have the impact it needs to in order to address that backlog as quickly as possible.

The Committee will be aware that there was a commitment made in the December 2021 measures to do with the workforce strategy and the capacity, capability and future sustainability of the local audit market and profession. Since I have been in post, I have taken on the momentum of the comprehensive workforce strategy, building on the work that has been undertaken to date. Those are my immediate priorities.

Shortly after we get the remit letter from DLUHC, I will be setting out the FRC's position, coming in as shadow system leader, on what we believe to be our short, medium and long-term priorities in role, how we are going to balance our role as system partner and regulator, and, in addition to that, what we see as the key recommendations for all of the system at that stage. Do look out for that shortly after we start in our role.

Q17 Sir Geoffrey Clifton-Brown: You have this new MOU and, among other



things, it is going to facilitate the realisation of a strengthened market to launch local audit qualification, LAQ, from the spring of 2023, and a technical advisory service, TAS, in the summer of 2023. Can you tell us how preparation for both of those is getting on?

Catherine Frances: Sir Geoffrey, some of these questions are for the Department. My apologies, but it is slightly confusing between the two. Shall I answer some of them, just to be clear on accountability?

Sir Geoffrey Clifton-Brown: I do not mind who answers, as long as I get an answer.

Catherine Frances: In terms of remitting the FRC, the MOU is jointly agreed between the Department and the Financial Reporting Council, and sets out the five key objectives for the FRC. In some respects, they are quite similar to the system leadership objectives that DLUHC has had over the last couple of years, because it puts them in the driving seat. Colleagues in FRC are strongly aware—and we share this awareness—that they cannot do it alone, so they need all parties, whether that be the NAO, representatives of local government or the regulatory side of the FRC, among many others, to deliver.

When we set the objectives for the FRC, we will issue that in a remit letter, but we will also develop, between us and the FRC, some performance indicators for how the FRC is doing. We will have to be very careful about those, because some of the direct accountability sits with the system leader, while other parts, necessarily, are a result of everybody else's action. We will update the Committee in due course on that.

The first priorities for them are going to be, as my colleague Neil has said, looking at the backlog, but that needs whole-system response. If I could just pre-empt, in a sense, where we will go after we deal with this backlog, there will be a question about the underlying capability and capacity in the system. There will be a question about whether we are setting a clear direction of travel about what we want auditors to do.

We know that we need to explore some flexibilities right now with auditors, because there are so many issues facing them, some of which are about valuation. Beyond that, we all know that local audit, when it is at its best, is a partnership between the auditor and the local authority, and we do not want to see an audit market that is overly commoditised in terms of that relationship.

To come to your question about the audit qualification, that is for the Department. We have looked at this quite carefully. There is a shortage of audit practitioners who are experts in local audit, and we want to launch essentially a stopgap, filler service while the market adjusts, and while firms train up more people to be local audit specialists. This will enable senior practitioners in audit to switch to local audit practice. It is designed to fill a shortfall that would be there in the short term. Longer-



term, we would absolutely see that the whole system needs to do it. We are on course to do next steps on it by summer 2023. It has slipped a little bit, because it is quite hard to design and to get the design just right.

Q18 Sir Geoffrey Clifton-Brown: There is a lot in that answer. Could you set out for us a timetable for when that this whole backlog of audits will be back on track and the steps to get there, so that we on this Committee, Parliament and the public will be able to judge how successful you have been?

Catherine Frances: I wish I could. I do not think it is possible, and I recognise that that is frustrating for the Committee. The reason why it is hard is that, in every individual audit decision, we have at least two players. We have the local authority, which needs to produce quality documentation, as you have said, by the deadline in advance of audit. We hear from auditors that councils are sometimes not producing quite high enough quality material on that, and we do sympathise with auditors. It is a mixed bag in councils.

Conversely, councils need their auditors to be there and ready with capacity to process their cases. As you have heard from Neil Harris, there are issues with auditors' teams, which are small, being stretched and, in a sense, operating between local councils where there is a backlog, the NHS and other bodies that ask them to audit.

I know that it is frustrating. While it is not possible to give a route straight through that in a granular way, it is the responsibility of the council to get quality documentation to the auditor, and of the auditor, because, ultimately, they did bid for these contracts, albeit they bid in an environment where the regulatory framework was somewhat different and so the demands on them have increased.

Q19 Sir Geoffrey Clifton-Brown: I am going to press you a bit. You have given us a technical explanation of what has to and what should happen, but you are not giving us an explanation of how you are going to organise this catch-up. It is really important. If we have local government audits that are delayed, taking councils like Thurrock or Slough, and there are problems in there—I want to come back to you on this in a minute, Mr Harris—it may well be that those problems were not picked up in a timely manner, because the audit was not done in a timely manner.

Catherine Frances: There is a lot in your question too, Sir Geoffrey. In terms of the sequence of how we will get from this situation, our strategy has been that, over the course of 2022, we have seen an increased focus on concerns by both auditors and councils about some issues of valuation that are slowing up some of their audit.

There are many different regulators of what is asked for in a financial statement and in an account, but, as Sarah Healey has said, we have set out a statutory instrument to try to lift the burden in terms of some valuations of infrastructure assets.



Q20 **Sir Geoffrey Clifton-Brown:** That is only temporary, is it not?

Catherine Frances: It is. We need to look at a longer-term solution with all the lead bodies. CIPFA, the financial reporting and accounting body, will also have a view on that, and that is not our lead. We start by trying to release pressure on this system, because we do agree that an audit that is spectacularly late is not very useful to anyone. Underlying that is the issue and the themes that were there in Redmond, which is that local government audit needs to be deeply relevant for local government.

There, I am afraid, some of the things that you might ask an auditor to do might add additional work. For example, the NAO's code of audit practice states something that we entirely agree with—that a value for money assessment is a valuable thing to do—but we are sequencing this. We are trying, first, to alleviate the burden and be very practical, and, secondly, to build that long-term stability about what the sector requires of it.

I can speak a little more about the risk, which is an important issue.

Sir Geoffrey Clifton-Brown: Yes, please do.

Catherine Frances: On risk, we are entirely in agreement with you that there is a real-world effect of late audit. It is a vital part of our system of operating risk and spotting it, but it is not the only element in here. Auditors can take steps, even when an audited account is not closed, to sound the alarm. We have seen some really good practice in this regard. Just to draw your attention to some, we have seen public interest reports issued in Croydon. We have seen auditors taking steps in other cases too, and they can write to senior officers. There are a couple of high-profile cases where that has happened recently.

Q21 **Chair:** Were you thinking of Bournemouth as one?

Catherine Frances: Indeed, that is another one that has been very highly publicised. In the Department, agreeing with you that it is a suboptimal context that audit is late, we are doing a set of things to additionally monitor risk. We have talked to the Committee about this before. We look at the financial risk of individual councils, and we also look at some governance indicators, which include whether audit is late.

We have also tightened the riskiest parts of this system. You will know that access to the Public Works Loan Board is now more limited than it was in the past in order to prevent the riskiest commercial behaviour, and we are taking powers through the Levelling Up and Regeneration Bill to try to ensure that, in cases where places are really heavily indebted, we have a suite of options available to us.

The last piece in this jigsaw is that councils need to step up. We and CIPFA have asked that all councils have independent scrutiny on their audit committees. Councils should be demanding more as well.



Q22 Sir Geoffrey Clifton-Brown: I will come to you, Ms Healey, if I may. The C&AG and I attended a function where we had all the top people in the room, and I sat next to one of the senior partners of Deloitte. We were talking about the difference between commercial audits and local government audits. They are very different, as we all know. What intelligence are you getting that local government auditors are training up or shifting enough people across, if they are able to, from commercial to local government to be able to fulfil this function?

Chair: What is the incentive?

Sir Geoffrey Clifton-Brown: Yes, what is the incentive?

Sarah Healey: It is worth saying, as Ms Frances has already set out, that the auditors that previously entered into contracts to complete these audits are contractually obliged to so do. We have taken some action to put more money into the system, but that is a contract that they are required to fulfil. We just need to focus on that, whatever the changes in context.

Separately—and you might want to speak to Mr Crawley about some of this later on in the hearing—the PSAA has completed a procurement, which has quite recently secured enough capacity for audits of all local bodies. This has seen a considerable increase in fees, which one might be concerned about because of the impact on local government, but both Mr Pocklington and Ms Frances have described a situation in which the requirements of local audit have increased significantly.

What has happened with the fees is now a realistic reflection of what is required to take part in local audit. It has increased very significantly from the lows. That means that it is much more financially viable to be involved in local audit than it was.

Q23 Sir Geoffrey Clifton-Brown: I accept all of that, and that is all helpful, in some senses, provided we do not go on getting these huge increases in fees. Otherwise, local government will be in difficulty. They are already complaining about the increase in fees, but we understand why it was necessary.

To try to get behind my question, it is all very well the PSAA having let all of its audits this year. What sort of intelligence do you have for future years that enough people are being trained into the profession? After all, we are still in a fairly fragile situation. You have only one extra auditing firm coming into the field.

Sarah Healey: Two, and a returner.

Q24 Sir Geoffrey Clifton-Brown: Okay, but it is still a relatively fragile situation. What intel do you have that there are enough people? You cannot just get an auditor overnight. Training takes a long time.

Sarah Healey: Indeed. Some of it is the local audit qualification, which Ms Frances has referred to, that enables that shift. We have also done



more to enable recruitment of auditors from EEA and EFTA countries, so that can fill gaps. Mr Harris referred earlier to the long-term workforce strategy that the FRC is developing as shadow system leader, and that will be absolutely critical to making sure that that pipeline works. That is the role that we have been playing in the liaison committee, and which is transferring to the FRC, of being the system leader that is monitoring that pipeline and keeping close to intelligence from auditors about capacity.

The fact that the PSAA has managed to procure enough auditors at the moment is a good, positive sign. It was not easy and it is not fixed overnight as a system, but it is moving in the right direction, where we are taking action that is needed to enable those local audits to be staffed up in the future. We absolutely acknowledge that it is a fragile system and one that needs really careful watching to make sure that the problems of the past do not come through again.

It is worth saying that some of the problems of the past were a generational shift, so we would not necessarily expect those to be repeated in quite the same way with the retirement of key audit partners who were qualified in local audit, and those who had a history and who had transferred into the private market retiring at once. There was this generational issue, which cannot repeat in quite the same way in the future.

Q25 Sir Geoffrey Clifton-Brown: Yes and no. Those senior people in local government audit had years and years of experience. Experience is one thing; training is another. New auditors coming in do not have quite that same experience. It is a good thing that people are being trained up, but that still leaves a bit of a problem.

Sarah Healey: One of the purposes of the audit qualification is precisely in order to enable people to use the experience that they have outside of local audit in order to understand the local audit context. We cannot necessarily get people who have retired back into the profession, because they have retired, but we can do everything possible to use the skills that exist in the audit market in order to provide that capacity and capability as needed.

Q26 Chair: The key thing for a public auditor is that they have to make different judgment calls to private audits. A qualification for someone who is experienced does not give you the experience to make that call, which we have seen most recently in Bournemouth. It is quite a difficult judgment to make.

Catherine Frances: It is quite a difficult judgment to make and it requires experience and joint work with the council leadership team.

Q27 Chair: There is going to be this gap. However many brilliant people you get coming through the sausage machine, it is not going to get people with the right experience for some years.



Catherine Frances: There are a remarkably small number of people in the audit profession at the moment—under 100 people at key audit partner level, so the most senior level—who are available to do this work with their supporting teams. When I have spoken to the auditors who have either entered or remained in the market, there are a few key messages from them.

The first is that they are very keen and public service-driven people who want to do that kind of deep work with local partnership, and that is why they have chosen to do this line of work rather than commercial.

The other message that they have given us, loud and clear, particularly those who are either entering or are already in the market and choosing to remain, is that it gives them certainty by which they can plan something of their pipeline of new auditors and new trainees, and bring them through the system. It is really challenging but it is a market, frustrating though that is.

Q28 **Sir Geoffrey Clifton-Brown:** That is what I want to come to Mr Harris about. Clearly, these increases in fees will enable firms to pay these auditors better. This is still a very fragile situation, with fewer than 100 senior auditors. Are you confident that, going forward, your training programme will produce sufficiently qualified people with experience to be able to do these? As we were making very clear earlier, it is not just local authorities but health bodies as well. Are you confident that you are going to be able to see enough properly qualified and trained people to do this job?

Neil Harris: I will turn to my DLUHC colleagues to answer the question specifically on the qualification, because the role of the FRC is to own an overall workforce strategy that brings all of the system together. That is looking at not just the qualification but routes into local audit, how we can increase the capacity at key audit partner level, and any barriers to entry. It is also looking at the prestige of local audit.

The work that I am overseeing at the moment with a number of partners across the system, particularly the audit firms, the professional institutes and others, is a much more comprehensive workforce strategy, which the FRC intends to publish by the autumn of this year. One part of that is the qualification. It is more appropriate, if I may, that DLUHC colleagues answer that question.

Q29 **Sir Geoffrey Clifton-Brown:** I will turn to Ms Healey on that. The real essence of the question is this. If, like Mr Grant, you were a youngster thinking about coming into the audit profession, what would encourage you to go into a local government auditing section, rather than going into the possibly higher-paid and possibly faster moving private sector?

Sarah Healey: In a sense, the answer to that question is the same one as it is for people who choose public service in all sorts of ways. It may be via a market, but, fundamentally, there is huge interest and value in audit of the public sector. It has its own particular challenges and



rewards. There is work out there that firms have bid for. Therefore, if they want to be in the audit market for the long term, they will be encouraging some of their young recruits to go into this particular line of auditing work.

As in a lot of these cases when people are making decisions between being paid one amount in one sector and another amount in another, they sometimes choose things on the value and interest of the work that they do.

Q30 Chair: We know that there has been a big problem.

Sarah Healey: This is why the increase in fees is important: so that there is a much closer match between the fees being paid and the work that needs to be done. We are making it clear that this is a market for the long term, where there will be benefit to firms taking part in it.

Q31 Chair: As well as entries into the market, there have also been exits from the market. We could take markets such as rail or energy, for example. We have seen a number of market failures where it is a regulated market, or quasi-public but private sector. It is still not really solid, is it?

Sarah Healey: As we have already said, I do not think that we are claiming that we have absolutely fixed it all, that it is all absolutely fine and that we do not have to watch out for any issues. We absolutely, definitely are not saying that. Precisely what we are saying is that we have put the fabric and the building blocks in place to fix this for the longer term, and it needs to work.

Q32 Chair: Just before we let this go, it is a rare moment to have both of you in the room. Mr Pocklington was there for some of this, if not for all of the diminution of the availability of public audit. Is someone doing a lessons learned here? This is a systems-wide failure, and only Whitehall has a reach across the whole system to say, "These are things that could go wrong". It has not just happened here; this is a lesson that could be learned by other Departments dealing with other areas like this where you are relying on the private sector to provide a certain level of expertise in order to carry out what is critical public service. Is that something that you could think about?

Jeremy Pocklington: First of all, we are still in the middle of this.

Chair: I am not saying lessons learned right now, but at some point.

Jeremy Pocklington: The right thing is to focus on implementing the actions that we have taken following Sir Tony's external review, and setting up Mr Harris and the FRC and ARGAs to succeed in their role as system leader.

Q33 Chair: Do you not agree that there are lessons to be learned here?

Jeremy Pocklington: You are absolutely correct that this is not the only part of the economy where this has happened, but it is a complicated set of circumstances that led to it. The challenge back on this, if I may, is,



“What are the actions that we should be taking that we are not already taking?”

Q34 **Chair:** It is about the timeliness of it. It is about seeing it coming.

Jeremy Pocklington: We have implemented the review. We have been focused on all aspects of the system. These things are not just in the Department’s control. It is not obvious to me that there are things that, without the benefit of hindsight, the Department should have been doing. That is the slight challenge back on that, if I may.

Q35 **Chair:** My challenge, then, back to you is that red flags were rising.

Jeremy Pocklington: We were taking action. What has happened then is that further problems have arisen as well—including, in the past year, the impact of a fine in the sector, as mentioned in the NAO Report. It was a perfectly legitimate regulatory decision and I am not questioning that, but that had a further chilling effect on the system over the past year, which has delayed the recovery and required us to ask CIPFA to take action. They could not then get enough agreement from other bodies, including FRAB, which is the Treasury body that oversees regulation standards. Therefore, the Department had to step in. I am trying to paint a picture of quite how complicated the action is.

Q36 **Chair:** That is exactly my point. It is complicated and there are red flags, so we could have a lessons learned about all these different moving parts, such as a fine and the knock-on and ripple effect. If you take the tragedy of Grenfell, for example, subsequent Government decisions about what might happen also had knock-on effects on, in that case, people’s ability to sell their homes—the EWS1 form—and the insurance industry. We need an understanding of how one decision in Whitewall or somewhere in the system can have a knock-on effect systemwide.

I will perhaps park that for now, because it is not really the main subject for today, but I have been on this Committee for over a decade and we see these same things come up. I am just keen to see that there is some understanding that there may be some system learning.

Jeremy Pocklington: Ultimately, it is about system learning and system leadership. That is the challenge.

Q37 **Chair:** With respect, Mr Pocklington, you were in the Department for a couple of years. Ms Healey has now taken over.

Jeremy Pocklington: I was in the Department for nearly five years.

Q38 **Chair:** We were talking about Covid, so I was thinking about the two years of Covid, which was an intense time. Forgive me; I did not mean to diminish that. The point is that we see a turnover of people. In fact, none of you were in the jobs that you are in when I took on my chairmanship of this Committee, for example, which is not that long ago, so there is a turnover.



Sarah Healey: It is worth also saying that there are clearly benefits of learning from different parts of the public sector being applied in other parts of the public sector. While I accept your point on turnover, and having been in my previous Permanent Secretary role for almost four years, which was not a short stint, you do bring with you a perspective from different experiences and different sectors, which can be extremely helpful.

Chair: I will park that there. You can sense that I just have a bit of frustration in me this morning. *Groundhog Day* comes to mind.

Q39 **Sir Geoffrey Clifton-Brown:** These are two separate questions, really. Firstly to you, Mr Harris, as the incoming system leader, what are your immediate priorities? What are the biggest risks to delivering your plans? How will you manage them? How will you keep Parliament updated?

Neil Harris: Just to recap what I said earlier, at the risk of repeating myself, it is really important that we progress as soon as possible the legislation for ARGA that gives that statutory underpinning to this role.

I answered earlier in terms of my short-term priorities. We will issue a statement in response to the remit letter from DLUHC, setting out our objectives for the forthcoming 12 months. I have already signalled that we will be setting out, in due course, our diagnosis of the systemwide issues, risks and challenges, and how we propose to address that in the short, medium and long term.

I covered in my previous answer the short-term objectives on the backlog, timeliness of reporting and the workforce strategy, but there is also some long-term work to be done across the system just to build that consensus on a roadmap to sustainable reforms, with a vision and purpose of what financial reporting and audit is and what changes need to be made to get to that. That should be done in parallel with the short-term measures that we are looking at now.

In terms of the risks of taking on this role, I would put that into two parts. The first is the risk to the FRC in taking on this role. You would fully expect that, in the time that I have been in post, I have agreed at board level within the FRC a set of key risks for the FRC, one of which is that we do not deliver on the MOU.

The second is that we do not have the capacity and capability to undertake our role and to operate appropriately with our dual hats in terms of being a system partner and a regulator. The third is that any action we take as a regulator could have a detrimental effect on the market. Those are the three key risks that we have set out very clearly to the board, with a series of mitigating actions.

The second element of risk is whole-system risk. As we become the shadow system leader, we will become the chair of the liaison committee, but it is important to say that I have been working closely with DLUHC colleagues ever since I arrived to understand what the key risks are. The



first priority for us as the incoming shadow system leader is to agree among the liaison committee of all senior stakeholders what that whole-system risk is and the priorities for action. That is a very important exercise, and we will be using the liaison committee to track those higher-risk items. The meetings of the liaison committee will be published and will be available to you.

In terms of reporting to Parliament, there are a number of things to say, and DLUHC colleagues may want to come in on this. DLUHC will remain the accounting officer for local government, which is clearly a key role in terms of that overall accountability to Parliament. The remit letter is really important for this Committee to be aware of, because it sets the Department's priorities for the FRC. We will be responding to that, and those will both be public documents.

If you have had an opportunity to read the MOU, the two appendices set out governance frameworks. I will be monitoring with DLUHC on how we deliver against the MOU in a series of escalations towards our reporting to various committees and how that translates to you. That will be in things like responding to letters and inquiries from this Committee, appearing in front of you and contributing to Treasury minutes.

All of our documents that we produce as shadow system leader will also be publicly available, as will the minutes of the liaison committee. There are a number of mechanisms that ensure that you as a Committee and Parliament will be briefed on the work that we are doing as part of discharging what we have to do under the MOU.

Q40 Sir Geoffrey Clifton-Brown: Chair, I thought I had finished with my section, but that answer raises alarm bells in my head. Could you just address this issue that you raised of whole-system risk? What exactly are you thinking of there? Are you thinking that you are not going to be able to get the accounts back on track within a reasonable period or that it is going to get worse?

Neil Harris: It is far from certain as to the answer to that question. Where I am referring to whole-system risk, it is about the interdependencies with the NHS. We have had a lot of discussion today about local government. It is very important to understand the interdependencies with the NHS audit market as well, the reason being that the same pool of audit resources works across both sectors.

The NHS has gone through some structural change in the last 12 months, and there is an audit of accounts happening this year. Auditors need to balance their resource in terms of clearing this backlog, delivering against NHS timetables, and then moving on to current financial years. That is what I mean by whole-system risk. In the shadow system leader role we have to understand that risk, but it is far from certain, in answer to your question, as to whether it will get worse before it gets better.

Q41 Sir Geoffrey Clifton-Brown: Knowing that and knowing all the different bits of the system, what action are you taking to try to do your best to



make sure that this is possible? If it really started to degenerate into the health service audits, this would become a really serious matter, so what actions are you taking to mitigate the possibility of this whole-system risk?

Neil Harris: For a start, understanding the issues in each of the individual sectors, such as whether there is the potential of another infrastructure asset issue that might be happening again this year, or whether there are complexities in each of the NHS audits that may be taking more time from auditors.

I also come back to a previous answer about the responsibility of the local authorities and auditors in the local government space to flush out the current position. The backlog is so significant that it is really important to know what is holding this up and what steps need to be taken to address that in a more granular way.

I am keen that, if auditors are concerned about the quality of financial reporting capacity or capability, or that there might be other governance and financial management issues, those are raised and escalated as soon as possible, so that, from a system point of view, I have a much more granular understanding of what is happening. Bear in mind that we are operating in a shadow form without statutory underpinning, but, as a shadow, we can make policy recommendations to DLUHC and commission work from other parts of the system to support us.

It is also important to say that I am here for the whole of the FRC and that the FRC plays its part as well. There may be recommendations that I want to make to parts of the FRC as well. The whole system needs to come together. I have been undertaking a lot of activity since I have started, including engagement across the local government and NHS sectors, and the audit suppliers, and attending liaison committees.

Working with DLUHC recently, I got a cross-Department meeting together to understand the challenges across the system. That holistic working is the only way that we can get this position addressed and then put it on a sustainable footing in the future.

Q42 **Sir Geoffrey Clifton-Brown:** We will come a little later to some of the standards that you set for the valuation of assets and so on, but I just want to finish with you, Mr Crawley. You have done a great job in letting all these contracts. How confident are you that, in the next round, you will be able to have a similar level of success? What if, hearing what Mr Harris says, you cannot let all these contracts? I am not entirely sure—and perhaps you will tell us that I should be—whether you cover these health audits and whether they are within your remit.

Tony Crawley: First of all, thank you for the invite to come here in person. The last time, it was from my spare bedroom.

We do not cover the NHS. That is through statute. We have no access to the NHS, just to clarify that position.



In terms of the procurement, it was very tough. We initially got 90% of what we needed from the first round. We then went to 96% and 99%, and got to 99.5%, which was enough, because of the local government reorganisation clarification. It is not ideal for any procurement to not get enough in the first round, because you want to be able to make a choice of what you want from the offers made to you, rather than have to go back and ask for more.

We liaised very closely with the Department. We met weekly during the procurement round. We made it very clear that the focus needs to be on what the position of the procurer is going to be next time, because what the procurer needs is a market that is vibrant. We have said that an auditor of last resort needs to be examined. We know that it is going to be difficult to do that, but we have also been working with colleagues from DLUHC and from the Cabinet Office to talk about what could be done and how the market could be developed next time.

You asked a question about the qualification. We know that there are people in firms waiting for that qualification to bring their knowledge of IFRS accounting across and using that qualification to get into the local audit market. As we know, a qualification design is being worked on. We know that that includes looking at how you work in a political environment, how you do the FM arrangements-type work, and how you look at elector queries, which is a unique feature of local government audit.

There is already a lot going on to look at the position of the procurer next time round, because work on that starts way before the contracts are let. That is very much a focus of our discussions with the Department already.

Q43 Sir Geoffrey Clifton-Brown: That was a brilliant answer, but not quite to the question that I asked. How confident are you in the next round that you are going to be able to let all these contracts first time round?

Tony Crawley: At the last appearance leading up to this, we were really concerned about getting enough. We just got there. If nothing changes, we will be in the same position.

Catherine Frances: The lot that has just been allocated is until 2027-28. Your question is a very good one, and auditors will have to finish on the old contracts that the PSAA has ably managed and move to this new contract, but there is quite a long window. Exactly as Tony Crawley says, we are thinking about the future, but we have quite a long window and we want to take exactly the strategic look that you have been quite rightly pushing us on throughout this hearing.

Sarah Healey: This is the value of the strategic work on workforce that will come through at that point. We will be staying in close touch with the market between now and then, but it is not an imminent re-procurement.

Q44 Chair: We saw two companies leave and three join, but two of them are



quite small. Mr Crawley, was that because of active work that you were doing to encourage the market?

Tony Crawley: We specifically let lots that were designed for new entrants, because there is a cut-off point of what are called major local audits and public entities. Coming into the local audit market, with all of its differences, we wanted to give them a safer space to start off with. The hope would be that those two new ones look at their progression through the next contract period and are more confident next time about going for the standard lots.

We are also encouraged by the fact that the two that have exited the market this time round have both said that they regard it as a pause. They recognise that they are in a challenging position in terms of resources at the moment. Neither has ruled out coming back in, just as KPMG came in this time.

Q45 **Chair:** We would have hoped that BDO and Deloitte would be big enough to come back in with relative ease. At least they know the market, even if they have resource constraints. With the new ones, that is quite interesting. Is there an issue at all, if you are a small company, that you might have to take out hefty insurance against your professional views? That is just more challenging if you are dealing with some of these local audits.

Tony Crawley: Part of our contracting process is to look at the insurances and we set the expectations within that. They all have professional indemnity insurance anyway, so we check that through the process. Also, we can contract only with people who have gone through the ICAEW process to become accredited auditors.

Q46 **Olivia Blake:** I have a quick question for Ms Frances. I was interested in what you were saying about capacity and capability within local government. What should local political leaders be pushing or looking for locally to improve internally?

Catherine Frances: That is a very good question. The best councils have very good whole-council discussions, which, of course, they are required to do, of their financial plans looking forward. They have very clear statements and a good understanding of risk at the political level, as well as at the officer level. They push on that and make sure that they understand it and are happy.

Sir Tony Redmond originally recommended, which we very much agree with, and CIPFA has backed, that, on an audit committee, you would have somebody who is independent and also highly qualified. We have funded the sector specifically for that, along with some of the other changes that have been made.

Any locally elected person should feel that they are comfortable in asking those questions. In a minority of cases where things have gone wrong, one of the lessons learned that has been drawn out, both by the



Department and by some of the auditors who have done a bit of a look around and a refresh looking at public interest reports, is that that level of open scrutiny, discussion and clarity around governance has been a source of weakness, which is something that can be solved only at the local level.

Q47 **Olivia Blake:** Off the back of that, do you feel that there is enough understanding of this whole issue among local leaders?

Catherine Frances: It is not my job to spend lots of time with local leaders—I hope that you will understand that—but rather with their lead officers. We see at council level in general that there is a very mixed picture. The LGA has recently done some work looking at the financial capabilities among officers, and has found that there are gaps and not a very deep pipeline of people working in this area who are comfortable and confident in all councils. The comprehension of risk is variable, and that is what has led to some of the failures.

However, people's risk appetite may be different, and that is part of a local accountability framework. It is legitimate in some contexts for local councillors, as long as they are operating within frameworks and understand the risk, to take a different approach. That is something that councils have said to us very strongly, and appetite in one part of the country may be different to that in another.

Q48 **Olivia Blake:** The reason I am pushing on that is that, without the buy-in of local councillors, officers might struggle, in a resource environment that has been a bit challenging, to get this as a priority for political leadership. Do you think that the Department is supporting officers in local authorities enough to get the urgency of these issues across?

Catherine Frances: I do. We have been very clear about the expectations on them in terms of scrutiny arrangements, but also audit committee arrangements. We write to councils regularly. My own Ministers have done webinars for elected people across the country to tune into, and they have had high attendance rates, where they have talked about the importance more widely of measurement of local government outcomes. We have generally reiterated this message.

If you were to ask local government about the clarity of message from the Department on the small but notable minority of councils that have made unwise and difficult decisions, and the visibility of our interventions and steps in some of the most challenged councils, where the issues are often but not always around governance and poor financial failure, that is something that the sector is very aware of.

Q49 **Olivia Blake:** With regard to timeliness, this is a long-running new issue. Why does the Department not already know what the issues are that are causing this and what the solutions are to it?

Catherine Frances: We do know, overarchingly, what the causes of the problems are. They go right back to the start of the hearing, when Jeremy set out issues with the audit market, the underlying regulation,



the history of procurement and costs in local government audit, and what has happened to the capacity in the sector. They are down to something to do with local authority grip on the presentation of some of its accounts and processes. They are down to workforce shortages, then compounded by Covid and the chilling effects that Jeremy has talked about in terms of fines.

We can describe that, absolutely fine, in macro terms. The challenge then comes that, if you ask any individual local area, "What is causing your problem?" you will get different answers depending on whether you talk to the council or the auditor. That may be valid, because it may be that one of them feels that the information they are getting is not sufficient, and another feels that their auditor is not available at quite the right time. It may be multifaceted.

For some of these audits that are late you can say, "Yes, I see what the issue is there", but there are others where it may be more contested and there may be different views between the parties, legitimately. We cannot put it neatly on one table, much though I would love to do so.

Q50 Olivia Blake: There is not really a prescriptive solution for this, is there?

Sarah Healey: When we identify things that are common across different situations that need to be solved systemically, that is what we do. That is the reason for the action on the statutory override, for instance. It is also the reason why the NAO made the change it did on VFM statements and financial opinion.

We know there is a capacity problem, hence the work on the qualification we talked about earlier. It is not that we do not know what some of the bigger issues are. It is just that, as Catherine is setting out, there will also be specific issues in specific areas that we cannot necessarily solve at a systemic level, which have to be solved between the auditor and the local authority.

Q51 Olivia Blake: Finally, Ms Frances used an interesting phrase earlier. You said you did not want the market to become over-commodified. I just wondered whether you could expand on what you meant by "over-commodified".

Catherine Frances: Yes, I was alluding to the fact that what experienced local government auditors and experienced chief executives talk about is the partnership between the two of them. That is a challenge function that is provided yearlong, with a proper conversation about where risk lies and what the challenges are.

We have a double bind here. The first is that we want to crack on and get through these audits so we can deal with the backlog. Secondly, everybody is really clear that you do not want that simply to become a numerical exercise or an exercise that looks, if I can put it this way, only at the commercial pursuits of councils. It also needs to look at the underlying service delivery, issues of efficiency and value for money.



That is why the Comptroller and Auditor General, in the code of audit practice, sets out this double requirement on auditors in local government, looking first at the financial audit and secondly at the value for money element. With some regret, we have had to say that, in this context, auditors have been given an option to delay the value for money piece. That is a pragmatic solution. We all agree on what we want local audit to do.

Olivia Blake: That is very useful. Thank you.

Chair: It is worth noting, perhaps for those who are watching who may not appreciate this, that the National Audit Office sets the framework, but it does not do the local government audit. It has no other role in that. I do not know whether you want to add anything, Comptroller and Auditor General, to explain how that works.

Gareth Davies: That is right. Since 2020, the current code of practice has set out the framework for local audit. As Catherine Frances has said, that has been adjusted to deal with this backlog issue. Where it has been used—it has been used in quite a few cases—it has already demonstrated its value as a way of providing an early signal of emerging problems, whether that is in governance, efficiency or the other areas you have mentioned.

Chair: I just wanted to be clear on who was responsible for what. This is a market with lots of moving parts.

Q52 **Olivia Blake:** It is a little bit complicated. Mr Harris, just returning to the risks you were mentioning, how do you feel your organisation prioritises not just the system risk, but the risk you mentioned for health? What would be the priority for you—health or local government?

Neil Harris: The simple answer to that is that they are both equal, as far as I am concerned. The only way you are going to get a sustainable solution across local audit is to look holistically across local government and the NHS.

As this role progresses, there is a role for the FRC to make recommendations to Government, if more needs to be done in having a more holistic set of expectations around financial reporting and audit deadlines across a number of sectors, which might help to provide some prioritisation of audit resource. That is why I say these are equally important.

Q53 **Olivia Blake:** Do you feel there is any potential, given all that is going on and all you have said, for the FRC, and your role in particular, to be a little overwhelmed or quite challenged?

Neil Harris: Yes, for fear of repeating myself, we are doing this in shadow form. We have to be very clear about our role and responsibilities before ARGA. We will make that position very clear in response to the



remit letter and how we are going to deliver on the memorandum of understanding.

We have made sure the risks of the FRC taking on this role on a number of fronts are visible to the board. It is also important to say we are hardwiring this work on local audit into the FRC. I have the ability to work with a number of colleagues across the FRC to support me as I need.

Q54 **Chair:** What do you mean by “hardwiring”?

Neil Harris: It is integrated. We are appointing an independent non-executive to the board with expertise in local audit, and we are currently out to recruit for a senior adviser as well to give me some independent challenge.

I want to give you the assurance that we are building capacity and capability within the FRC to deliver on our responsibilities within the MOU. My recruitment to our dedicated local audit team continues. I am pleased to say my deputy director is joining in the middle of April and is a practitioner in the local government sector. That is about trying to give me some complementary skills.

We just need to be very clear about what we can and cannot do within the FRC. As soon as an issue emerge across the system, it should not be assumed that the FRC is solely responsible for fixing it. We have a role to convene and co-ordinate the system and have that more holistic look. There may be things that the FRC, in its regulatory function, could legitimately do, but we may also be making policy recommendations to DLUHC or other parts of Government, and asking others within the system to contribute. Those would be audit suppliers, some elements of local government, the professional institutes and others.

It is really important that I hold that line. It will become overwhelming if there is a perception that we are responsible for fixing everything and that I am the great messiah who is going to fix local audit, which should not be the case.

Q55 **Olivia Blake:** It sounds like you feel your role is more as an enabler.

Neil Harris: I would say I am a head of statutory underpinning, yes. The memorandum of understanding gives us some very clear roles and responsibilities. It is a very serious task we have within the FRC to bring the whole system together. I said at the very beginning that everyone has to play their part. It needs a dedicated and concerted effort from absolutely everybody. Every part of the system has a part to play here.

Catherine Frances: We have published the MOU between us and the FRC, and Neil Harris and his team are building up, as he has said, but we have not transferred the role to them yet. I just want to make sure we are absolutely clear.

Chair: It is in shadow, yes.



Catherine Frances: No, not even in shadow. We have published the MOU, and we are undergoing a process between us and the FRC to make sure it is absolutely ready and we are absolutely ready to hand over. We then hand over to them, trigger the remit letter and they then operate in shadow form.

At the moment—I just want to be clear on the accountabilities—Neil is building all of this capacity absolutely well and working very jointly with us before that formal handover.

Olivia Blake: It is in readiness, okay.

Q56 **Chair:** Mr Harris, you said you are not the messiah. You are like a tsar; you are an enabler. We are using all these words. In terms of your powers, when you do have this responsibility, if somebody does not play ball, you are the first person in this role, so it is pretty critical.

You talk about there being a line you cannot cross when it comes to the FRC's responsibilities, but is there a line that you would have to really hold and dig in on, if you felt a bit of the system was not doing what it should be doing? As of yet your profile is emerging because you are very new in the role, but, with your experience, can you develop the profile you need to make sure people are cajoled, frightened or persuaded, whatever it takes, to do what they need to do?

Neil Harris: Yes, I can.

Chair: You have a fierce side, do you?

Neil Harris: You have not seen it yet, but yes.

Q57 **Chair:** If you are up against a Department, if it comes to a head-to-head, and there is a discussion, maybe a political discussion, that means Ms Healey has to implement something that might be challenging politically, do you think you have that strength?

Neil Harris: I do, yes. One of the things I have got involved in already is DLUHC's accountability framework. I will be getting involved in a lot more of the stewardship meetings within DLUHC so I can impart my views about what needs to happen within the system directly into DLUHC. If I think there are policy recommendations to make and I believe they are so important, I have a mechanism to do so.

The FRC has, as part of the MOU, an ability to produce an annual report on the state of local audit, but it can report at any time. If we feel so strongly that something needs to happen, we have an ability to—

Q58 **Chair:** You are confident that you will be confident enough to do that.

Neil Harris: Yes.

Q59 **Olivia Blake:** Moving on to Mr Crawley, you mentioned the auditor of last resort. I just wondered whether you could provide a bit more information on how that might strengthen the market and what you



would like to see from that.

Tony Crawley: We have asked for an evaluation of whether it is feasible because it is not easy to set up a new entity. There are all sorts of issues about business planning and how far it would go, et cetera.

What it does give—this exists in other parts of the UK—is an ability for the procurer to know they will always be able to make an appointment. There is always somebody they can call on, if the private sector firms decide they do not want to get involved to the extent that was perhaps originally envisaged. It gives that security; it gives that backstop to the market. It would be enormously useful to any procurer to have an auditor of last resort available.

Q60 **Peter Grant:** Mr Pocklington, your remit or your Department's remit on local government extends only to England, but, although they may be worded differently, a lot of the financial reporting and audit standards are very similar across the United Kingdom. How big a problem is lateness in local authority audits in the rest of the UK?

Jeremy Pocklington: Scotland is a very different market, as you will know probably better than I do. I am not aware there is quite the same scale of issues. Ms Frances has more up-to-date information than I do.

Catherine Frances: I do, though we are not accountable for it, as you know. Audit Scotland commissions in a combination of ways from the private and public sector. My information on Scotland is that there are not the same timing issues as we are facing in the English context.

Q61 **Peter Grant:** I got somebody in my office to check yesterday. Four out of 32 Scottish local authorities have not met the deadline for last year's publication, which is within a few days of the same deadline here. Have you looked, Mr Pocklington, at the detailed differences in the way things are done in Scotland to see whether there is quite an easy fix for the problems you have?

I will maybe come back to you in a minute about the audit market, but, if your next-door neighbour has a level of compliance seven times as high as yours, that would seem an obvious place to look to improve the performance in England. I do not know; maybe Wales and Northern Ireland are even better.

Could you just explain what you mean when you say that the audit market is different? I am particularly keen to tease out whether it is different because of factors that are within the control of Government and local government, or because of factors outwith the control of anybody in this room.

Jeremy Pocklington: Scotland runs a model based on Audit Scotland, as I understand it. There is a combination of both direct provision of audit functions by Audit Scotland and some market procurement of private sector audit to audit local government as well. There is a very different model to that operating in England.



The background in England is that the audit model in England was fundamentally changed under the 2014 legislation. That is the historic background. We abolished the Audit Commission and moved to a fully market-led model, which was a policy decision taken by the Government at the time. The scale is very different in England. The Government do not have any plans to move back to the approach that currently operates in Scotland.

It is devolved so it is a matter for the Scottish Government. There is no reason why we cannot make market systems work effectively to deliver the outcomes we want, but we have talked about the challenges that have arisen in England, as Sir Tony found and as the Chair alluded to earlier. The fragmentation of the system has been the cause of the challenge in England.

Q62 Peter Grant: To be clear, the major differences in the way local authority audit works in Scotland, which on the evidence seems to be much more effective, are things that are within the gift of the UK Government to change, leading to a similar model in England.

Jeremy Pocklington: Fundamentally, these are policy decisions that the Government of the day need to take. That is a truism.

Q63 Peter Grant: When the Government take a decision, for example, to allocate new ring-fenced funding to local authorities, which is always brings with it an additional burden of accountability and auditing—more so than it would if they said to local government, “There is money; you decide how to spend it”—what assessment do you make of the additional burdens this puts on local authority management, local authority finance teams and eventually on auditors?

For example, the pothole money that was announced yesterday will no doubt be welcome, but, in every council that gets the money, somebody is going to have to spend time proving it was spent on potholes and not on something else. What assessment do you make of the demands you are putting on an already failing system of accounts preparation and audit?

Jeremy Pocklington: I am afraid I do not know the details of what was announced yesterday. I will bring in Ms Frances on that. I am no longer in the Department.

Q64 Peter Grant: As a general point—this is not the first time there has been a big announcement of money for councils to spend on a particular thing—is it part of the assessment process to look at the capacity of receiving organisations to ensure they can deal with the accountability requirements that are put on them?

Catherine Frances: As a general rule, under the best value framework, if any Government Department takes a step to put a new burden on local government, it is obliged to fund it.



The issue you are describing—I am sorry; I am not an expert on the individual cases—is one of the balance of funding that goes from central Government to local government. The question is how far we try to put funding through undifferentiated routes, routes that are identified for a particular but very broad use or routes where there is a very high degree of specificity. In truth, there is always a judgment to be made there.

From the departmental perspective, in general, we try to encourage all our colleagues across Whitehall to streamline wherever it is possible and to remove ring-fences. For example, if you look at the local government finance settlement this year, it had the undifferentiated grant—the revenue support grant, which has been there for a long time—and it additionally had a lot of extra money for social care. That went into a grant that could be spent only on social care, but children’s and adult’s in the round. We will be working with all our colleagues on the balance of other bits of funding.

In a sense, it is our pursuit to look at the funding going out from Government and, wherever possible, to remove ring-fences and restrictions, so that, where restrictions remain, it is for good reason. It is because the Government have taken a policy decision that, yes, they want this to be spent on a particular piece of work.

The feedback from councils is that ring-fencing, although it is not always popular with them, is not a particular issue. The feedback from councils recently has been around competition. That is something we take very seriously indeed. We have tried to streamline the number of competitions that are being run. That is the immediate feedback from councils.

Sarah Healey: You will also be aware that the Department retains a commitment to publishing a funding simplification plan for local government. In addition to that, just to build on what Catherine said about the key issues for audit, those tend to be less about ring-fencing. Where we have been able to lift burdens or hold back from adding new requirements on local authorities, we have done so precisely because of the difficulties in the system at the present time.

Q65 Sir Geoffrey Clifton-Brown: Ms Frances, I want to come back and build on Ms Blake’s very important question about risk. It is this. What is the danger of these delayed audits in detecting a real systemic risk to a council? Perhaps allied to that question, how effective are these risk statements?

When we hear of a recent publicised case where Liverpool discovered it had £200 million of outstanding debt, it seems like, instead of waiting for a full audit, these risk statements need to be issued quicker. That is also a problem for the auditors who are doing it. There are relatively young people going in to do the audit in the first instance. They might not necessarily be aware of the systemic risk they are seeing.



Catherine Frances: On an individual council level, audited accounts not being on time adds risk. There is no doubt about that. I am not going to comment in depth on the individual case you raise, if that is okay.

Returning to one of the points I made earlier, we are seeing—I am really encouraged by this—auditors issuing strong statements. They can either issue public interest reports, which they can do under statute, or very noticeable interventions, letters of intervention to lead officers and so on and so forth, in advance of accounts being completed and audited.

That has been very effective in a number of cases. There was the high-profile case in Slough, for instance, where auditors raised concerns. Croydon was also notable. The Chair talked earlier about Bournemouth. There are these instances, and they have a real impact. That risk hits at a council level.

At a macro level, across the whole system, we are looking very closely indeed and we are trying to tighten the main areas of risk for individual councils. You may know we have issued a couple of consultations on how they should account for their debt repayments, for example. A third consultation on that is pending. It is quite technical area, but one where some councils have got into problems so we are trying to shut down that avenue of risk.

Similarly, restrictions have now come in around borrowing for commercial yield. A council cannot do that and still borrow from the PWLB. All those things are systemwide and designed to support the work going on in councils to spot and minimise risk as far as possible. I cannot pretend to this Committee that having late audits is not a proper additional risk factor for individual councils. It is.

Q66 **Sir Geoffrey Clifton-Brown:** I am very grateful. I have been pressing the risks with PWLB on this Committee. The changes did stop my local council making an unwise investment so I am grateful for that.

Ms Healey, as I understand it, there is no sanction on any local authority if it does not prepare its audit properly and on time. Given that this is one of the real spinning wheels as part of this whole problem of delayed audits, is there something else that needs to be done here to give local authorities a real incentive to get their accounts done on time?

Sarah Healey: There is a statutory deadline for the production of accounts, just like there are all sorts of statutory responsibilities local authorities have.

Sir Geoffrey Clifton-Brown: But there is no sanction.

Sarah Healey: Ms Frances has already laid out that we have written to local authorities to emphasise the significance of this issue and to underline their responsibilities to get audits completed on time and, indeed, in particular to deal with the backlog that is holding up the relevance of those accounts.



You are correct that there is no specific sanction against local authorities, but we are clear that they are accountable for making this happen and we expect to see action on it.

Q67 Sir Geoffrey Clifton-Brown: I accept that, but this is not a new problem. It has been going on for a number of years. This is the beginning of the cycle of decline. If the local authority does not do its accounts on time, the poor auditor cannot possibly do their audit on time. How confident are you that the action Ms Frances has taken is going to make sure the laggards do their accounts to the statutory deadline?

Sarah Healey: As we have explained throughout this hearing, there are lots of different players that have responsibilities.

Sir Geoffrey Clifton-Brown: The local authority is at the beginning of the chain.

Sarah Healey: The local authority is absolutely critical to it, and both Mr Pocklington and Ms Frances have emphasised the significance of the role of the local authority in this. We have given them extra funding to enable them to build their capacity to respond alongside the broader increase in spending power that they have received.

We have also done everything we can to try to help with the capacity they can draw on from audit firms in completing this. We have set our expectations and, with the improvements in the overall system, we expect to see them stepping up.

Q68 Sir Geoffrey Clifton-Brown: Will you be able to keep the Committee in the loop as to how well that process is going?

Sarah Healey: Yes, of course.

Sir Geoffrey Clifton-Brown: It seems to me to be fairly critical to the whole process.

Sarah Healey: We are very happy to write and give you an update regularly on how that is proceeding and what we are seeing taking place.

Sir Geoffrey Clifton-Brown: That would be very helpful. Thank you.

Q69 Chair: On the issue about quality in local authorities, the audit deadline is being pulled forward. We are all trying to get that to happen across central Government and local government. We have had evidence saying that there are quite big gaps and some difficulty in recruiting the right financial expertise into local government. Will drawing that deadline forward, though we all want to see it happen, mean a risk in the quality of accounts? I suppose I am looking at Ms Frances on this.

Catherine Frances: As you know, we have adjusted the timelines here at multiple points in the past. We will just keep it under review. We have not made any plans to change what we have committed to so far. In this



context, we are trying to keep a proper focus on how everybody has to get to something that feels realistic.

If I can be frank, some auditors have told councils they are not available to start work on certain accounts, even if the council lays the material on time, because of the constraints within their own companies, which we understand and recognise. Similarly, auditors have said that some councils are not providing them with the material they need in order for it to be of a high enough quality. You can see, then, a system properly under strain from both sides.

Coming back to the point about penalising one partner or another in this, that is the difficulty. You have the whole system under strain, and we need them to properly get together and, as Sarah Healey has said, understand the granularity of that as it unfolds.

Chair: We know there are still many, many problems in the system.

Q70 **Sir Geoffrey Clifton-Brown:** Ms Healey, I would just like to come on to a different subject. We have already heard about the systemic risk to health audits. I would like to just examine other systemic risks to other parts of Government auditing. Pensions is one of those key ones that would delay individual departmental accounts. DCMS, your old Ministry, is one of the Departments at risk from its next steps agencies. How can you tighten up this area so we do not begin to get a risk to the auditing process right across Government?

Sarah Healey: I do not have an easy answer to that question. When I left DCMS we were in discussions with the NAO about how to ensure this did not end up endlessly delaying the closure of the departmental accounts. It is also an issue for some other parts of Government. For instance, the Ministry of Justice set a significantly larger number in those accounts than in the DCMS accounts.

We are really seeking a sensible settlement where we took account of the risk of not having full local government information in determining when it was reasonable to close those departmental accounts, which only partly drew on that local government information.

Neither the Committee, the NAO, the Department, the Department's audit committee nor anyone else would be happy to do that unless we were all satisfied the settlement that was reached was fair, reasonable and balanced and was not taking too much risk simply for the sake of closing things earlier. I am not sure where those conversations have got to, but, insofar as I can assist with them in my new role, I am very happy to take part in them.

Q71 **Sir Geoffrey Clifton-Brown:** The other risk is to whole-of-Government accounts. If the departmental accounts are not closed, the whole-of-Government accounts will be published later. The later they are published, the less value they are to everybody who is trying to make use



of them.

Sarah Healey: That is absolutely true. We have sensibly taken the decision to change the threshold for local bodies' accounts to be included in whole-of-Government accounts. That has been pragmatically raised in order to ensure there are fewer bodies and therefore less contagion risk to the whole-of-Government accounts from that.

We are conscious of the impact local bodies have due to their breadth and the contribution they make to all of these different Departments. That is the nature of local government: it is involved in all sorts of other parts of what the Government do locally and nationally. That is one of the reasons we are so keen to see this improve, despite the challenges of making it happen.

Q72 **Sir Geoffrey Clifton-Brown:** Can I move to you, Mr Crawley? On Ms Frances's point, say a local authority gets its audit done on time, by the statutory date, but the auditor says, "We are not available to do it for the next month". Should they not be ready as part of their contractual obligation? If the local authority does it by the statutory date, the auditor should be ready to take over from there on it and not cause any delays.

Tony Crawley: We do not have the power to direct auditors. That is part of the independence framework of this system. Once appointed, auditors are independent of us, by design. We obviously want the audit to be done on time. There is no statutory date for the auditor to give the opinion. That is another part of the framework that creates a challenge for the contract.

The reality is that there is a shortage of audit resources, as has been mentioned, with the knowledge to do local audit. The firms want to get through the audits as quickly as possible. Those who are exiting want to release their staff to work on other work. The ones who have new contracts want to get to the new contracts as quickly as possible, but they have to deliver the required standard of audit. They have been very clear in their public statements that they are not prepared to compromise on audit quality at all.

There is something that has struck me as part of this debate. I will quote from the ICAEW. "There is insufficient capacity in the local audit market, while auditors, finance teams and regulators are not aligned in their view of audit risks". For me, this is a really important point. If we can broker a position where there is clarity that scarce audit resource is aimed at the areas that are really important, which enables scarce finance resource to provide the information that is important, that is the way we tackle the backlog.

At the moment, the size of the audits is very substantial. The auditors are in a position where they are cautious in terms of regulatory risk. We need to broker a way forward so that there is congruence between the preparers, the auditors and the regulators about what really matters for



local audit and what the audit should be concentrating on. At the moment, we have a position where the volume of work the auditors are required to do with no statutory deadline to give their opinion means the backlog is building.

For me, that is an absolutely crucial point. Grant Thornton's recent report at the time talked about the importance of addressing the issue around property, plant and equipment, and getting congruence between what the regulators are expecting the auditors to do and the information the auditors are expecting from the bodies. The auditors are caught in the middle in terms of the expectation of what is required around certain areas of work. No one is doing anything wrong, but it is a matter of bringing that together. For me, that is a really important point, which both ICAEW and Grant Thornton have mentioned.

Chair: This is the evidence from Grant Thornton.

Q73 **Sir Geoffrey Clifton-Brown:** Grant Thornton asked whether the FRC would consider introducing temporary flexibility into the local audit framework to allow reduced-scope audits to be undertaken on backlog accounts. That is a slightly different point, Mr Harris, but would that be a possibility?

Chair: It would be quite risky.

Neil Harris: The first thing to say is that, as you would expect from a representative of the FRC, we cannot compromise on having high standards of financial reporting, governance and audit in the public interest and holding to account those who are responsible for doing so.

Notwithstanding that, clearly we recognise, as one part of the system, that we need to get to a consensual view on what a proportionate risk-based audit is. It will be my responsibility, when I come in shortly as the shadow system leader, to convene and bring all of the partners together on a common understanding of what that is that does not undermine professional accounting and auditing standards.

I am not going to comment on individual account balances. It is not appropriate for me to do so. It is also important to say that we do not set the financial reporting framework. If we think there is a consensual view that does not compromise the high standards we would expect, within the system we would all want to work towards achieving that.

Chair: It could be quite worrying, if you have a council with more than one year's backlog and then there is a drop in quality. That could have a knock-on effect in the long term. They raise an interesting point, but it is fraught with risk.

Q74 **Sir Geoffrey Clifton-Brown:** The Chair is absolutely right. I just want to press you slightly on this point about the timeliness of audits, Mr Crawley. I understand that auditors, quite rightly, have to be totally independent, that they do not have a deadline on when they have to



complete it and that their quality is regulated by Mr Harris. It is their responsibility.

Timeliness is a different matter. Are you monitoring, within the contracts system, whether they start their audits on time? Could you not make it some form of condition that, if they want to get a contract in the next round, their record in this round will be looked at?

Tony Crawley: Under the procurement laws, you do need to look forward. As you have mentioned previously, we are not in a strong enough position to dictate to the market because we need to get whatever we can from the market in terms of capacity. In this current contracting round, working with the FRC, Neil's colleagues, we looked at the question around capacity. We asked the firms to give a very clear indication of their maximum capacity, taking into account what they expected to deliver.

As was mentioned earlier, what happened last time was that the level of work they expected to do when they bid in 2017 exploded during this contract round. This time we asked them—hopefully there will not be at a similar expansion during the next contract round—to be very clear about realistically bidding for a volume of work that they know they can deliver. You saw some of the suppliers reduce their capacity bid in that context.

Q75 **Sir Geoffrey Clifton-Brown:** My council and no doubt every local authority in the country will be very interested to know what your view on fees is. Will fees increase beyond the anticipated 150%?

Tony Crawley: We commission a rate, so the level of fees will depend on the volume of work needed. If new standards are brought in, typically new standards increase work. The next one is ISA 315, which will increase the amount of work they need to do around risk. The auditors have to deliver what is required by the financial reporting framework. They have to deliver what is required under the code.

If there are reductions in the amount of work, that will mean the fee is lower than it is now. If the amount of work increases, the fees will go up by more than that. It is dependent on that. There has effectively been a correction in the rate at which they are paid. The actual fees will be determined by the volume of work they need to do.

Q76 **Olivia Blake:** To follow up on that thread, is auditors' inability to be timely in this space a consequence of market failure?

Tony Crawley: We have seen a shift. There used to be equal weighting in the way the auditors approached audits in terms of quality and timeliness. There was a balance. The post-Carillion, post-Kingman focus of regulation has been very strongly on audit quality. The auditors have been very publicly saying, "We will sign when we are ready. We will not compromise on quality". If you are a provider, you listen very carefully to your regulator and you respond to that.



In the absence of a statutory deadline to provide the opinion, the auditors are then saying, "Well, we need to make sure we are delivering what is needed". It is a consequence of a number of the factors that have been talked about this morning. The focus has moved from a balance between quality and timeliness to being focused very strongly on audit quality.

That is due to the Government's drive for much better audit quality. Local audit has been caught up in the extra circumstances of not having a deadline and the specialist skills needed to deliver local audits. It is a combination of factors, as has been mentioned a number of times this morning.

Q77 Olivia Blake: Could procurement, in and of itself, help alleviate some of that tension?

Tony Crawley: Although it has been mentioned, the fee increases for local authorities have come at an unfortunate time. The reality is that this should make it a more attractive market. We know there are firms looking at the local audit market. Part of the benefit of getting the backlog sorted would be that firms would look on coming in more favourably. It is an interesting market. It is a different way of doing things; it has extra responsibilities; it is in public. Nevertheless there are firms looking at it.

At the moment, the reality in the wider audit market is that audit firms generally have what we call channel choice. I mentioned it last time I was here, virtually. They are able to decide which markets they want to go into. They have a limited amount of capacity. Because the larger firms are reducing their presence in certain other markets, which those firms are already in, it is easier for them to expand in markets they are already in. It becomes quite complicated. Nevertheless, there are firms interested in coming in, if it can get sorted.

Q78 Olivia Blake: Moving to competitiveness, given what you have just outlined, do you feel there are enough partners in the audit market at the moment? What would an ideal number of audit partners be?

Chair: Senior experienced auditors, yes.

Tony Crawley: Key audit partner is a qualification that is needed to do either health or local government, with the exception of foundation trusts, which are slightly different. The number is below 100 at the moment. Some of those names are people who will never do an audit again. The number is worryingly low.

The local audit qualification is a really important step forward. It sends the message that you can come into this from a private sector background with the appropriate training and work through it. You would not take on a massive audit straightaway. You would get to know the sector and build on that.



The number of key audit partners and their age profile, on which the Committee has commented before, is a concern. It is about building that back up. Neil has mentioned the workforce strategy. We have emphasised to the local audit liaison committee that we think the workforce strategy is an absolutely crucial development. It is about looking at that pipeline. How do we encourage people to come into the market?

Q79 Olivia Blake: Is this an opportunity? Looking across Government at other areas where there are skills shortages, they are poaching retirees and trying to encourage people back into work to help. Would that be a worthwhile experience? I recognise that in audit there is perhaps a bit of difficulty with that.

Tony Crawley: One thing to bear in mind is that audit has moved very significantly in the last few years in terms of the depth of challenge. We look at every firm's files every year, and we can see the expansion in the amount of work they need to do and the technicalities of it. We would need to make sure that anyone who gets accreditation has full up-to-date knowledge of what is needed to be a key audit partner and to be able to sign off public money.

Every avenue should be explored, but that would be the overriding issue for me, making sure we do not fill up numbers for the sake of it. It has to be the right people with the right up-to-date knowledge.

Q80 Olivia Blake: With new companies and auditors coming into the sector to pick up some of this work, what is your feeling about how to manage the risk of staff from other auditors moving across to them? They might, for example, have higher pay offers and things like that, which you sometimes see with emerging players.

Tony Crawley: It is a fact that people move across firms all the time in all sorts of areas. It is inevitable that some will move across. They will see new opportunities; they will see promotions that are not available in their current firm.

There is a dynamic audit market. As auditors with local audit knowledge are in short supply, some no doubt will take advantage of that and either talk to the current employers about getting more pay or move firm in order to find new opportunities. That is an inevitable consequence of the market. It has always happened and it always will.

Q81 Olivia Blake: Mr Crawley and Mr Harris, is there anything either of you could be doing to help manage that risk and to avoid audits not being completed because people are leaving the firms?

Tony Crawley: It is an indicative position—there was some coverage of the BCP case—that one person moving could cause a delay. It shows you how scarce a resource an experienced person is. That is the issue that needs to be sorted. There will always be movement between firms, but it is about building that resilience.



I would go back to my point about the volume of work. If you have the same amount of people but less work, you create headroom. I cannot emphasise enough how important it is to look at the size of the work that is done in each individual audit, even relatively straightforward audits. That is another issue that would help the workforce strategy. Ultimately, the workforce strategy has to be designed to deliver what is needed. If what is needed is less, the workforce strategy is under less stress.

Neil Harris: To add to Mr Crawley's answer from an FRC perspective, we have an important role in our supervision division. We have supervisory responsibilities over all the key audit suppliers. If we see a persistent concern around resourcing and resilience, we have an ability within our supervision role to pursue that with senior leaders within the firm. We have that ability to do it across all the sectors that are audited and within the scope of our role.

Can I just make one observation on the exchange you have had with Mr Crawley? I completely understand the point on workload. The only other thing I would mention from my engagement to date would be around risk. A small number of local authorities are perhaps taking a disproportionate amount of audit resource time, due to the significant level of complexity associated with their arrangements, the quality of their financial statements or concerns about their capacity, systems and capability to produce good-quality accounts. That can have a disproportionate impact on the level of resource required in addition to the workload points Mr Crawley has mentioned.

My view on this audit market failure is that it is important to level up across the whole system. We need higher standards and higher expectations of local authorities and auditors. That would be a way through this.

Q82 **Olivia Blake:** I just want to touch on workforce. I know we have covered quite a bit on that, but I just want to ask whether the new qualification will be attractive to people in the private sector part of auditing.

Neil Harris: Is that a question to me?

Chair: You have been in the sector. What made you want to jump?

Neil Harris: I think it would, but it needs to be put together, as Mr Crawley said, with a broader package of measures on workforce. I am really keen to understand routes into local audit. You have to start when the individuals are at university or college. How do you get individuals there to capture that social purpose?

What better time to be doing public sector audit? It needs championing, but that needs to be done at the very early stages and moving through. The qualification itself is one aspect of it, but prestige and championing the importance of the work that is done on local audit is extremely important.



Chair: It was not that long ago—well, it was quite a long time ago—that we had local auditors who were famous for the work they had done in calling out very bad practice in some local authorities. We do not have the same or equivalent visibility now.

Q83 **Olivia Blake:** I just want to pick up on the filler service that was mentioned earlier. Are you confident that will help bolster—

Catherine Frances: Apologies if I was unclear. It is the same thing. I was alluding to a qualification being in place to allow people to switch over while the market adjusts and, in exactly the way Neil Harris was talking about, brings people through. It is one and the same thing.

That is also building on work the FRC did last year to change the key audit practitioner guidance, which was already in place by the FRC to enable people to switch over. First of all, the FRC did that to facilitate that movement. Then we are proposing the local audit qualification. The third string to that bow is the piece Neil is talking about, the sector itself generating further recruits and developing their skills.

Olivia Blake: That is useful. I had not heard that phrase. I just wanted to clarify that.

Chair: It will take quite a long time, though. First, what will make someone jump to do that qualification? It will also take a very long time, as Mr Harris has hinted at, to get people coming through to be senior auditors. Realistically, Mr Harris, we are looking at a decade or so to get the right qualified people in the right place, are we not?

Neil Harris: It will take time. Yes, it is a long-term plan.

Chair: The price of failure is very high.

Neil Harris: As part of that, we also need to look at what the options are in the short term.

Olivia Blake: I will move on to ARGA.

Chair: Can we spell it out, please?

Olivia Blake: Now you are testing me.

Chair: No, okay.

Q84 **Olivia Blake:** When will ARGA be established, Neil?

Sarah Healey: That question is probably more for us. Mr Harris has made clear his eagerness to see that take place. Obviously, it requires legislation to change the Financial Reporting Council into ARGA. Clearly, we are keen, as ever, to see that happen, but it is very much dependent on legislative time being available for that legislation. We continue discussions, as is normal in Government, to secure that legislative time.



It is not our legislation. It is legislation from the new Department for Business and Trade that will establish ARGA.

Chair: It is in a new Department. That sends a chill down my spine.

Q85 **Olivia Blake:** Will that impact timeframes?

Sarah Healey: The establishment of the new Department will not impact timeframes at all. The section of the previous Department for Business, Energy and Industrial Strategy, which was a very large Department, moved over to combine with international trade. There is no reason to suspect the people working on that or the priority given to it in the new Department will change at all.

Chair: You sound very confident.

Sarah Healey: The change in the machinery of Government is not the thing that will have an impact here. The challenge is legislative time, and that is common across Government.

Chair: It is outside your hands.

Sarah Healey: Indeed.

Q86 **Olivia Blake:** Back to Mr Harris, given the departure of the FRC's chief executive, is there a risk that there will be more delays from your side?

Neil Harris: There is no risk whatsoever. We have already put in place very good transition arrangements where Sarah Rapson, who is the executive director of supervision, is acting as the deputy chief executive. Sarah has been heavily involved in the work associated with local audit and the shadow system leadership. We expect that Sarah will be chairing the liaison committee of senior stakeholders as and when we take on our shadow system leader responsibilities.

We have a number of workstreams within the FRC to be ready and match fit for ARGAs. That work continues. In fact, we are in a really good position, hence why, as Ms Healey says, we are pressing for ARGAs as soon as possible. We think we are ready, and we want that statutory underpinning.

Sir Jon Thompson has done a terrific job at the FRC around transformation and will be sorely missed, but we are very much prepared to continue on our journey to ARGAs with the future arrangements we have put in place and a new chief executive.

Q87 **Olivia Blake:** There is lots of confidence around ARGAs. How will we know it is working, if it is working, once it has been established?

Chair: What does success look like, Mr Harris?

Neil Harris: There are some success measures we can put in place before ARGAs, working with the Department, as to what we want to see



from a successful system. Increasing the capacity of key audit partners and reducing the backlog of audit would be key measures.

For me, one of the important things is whether the system as a whole knows what is going on in terms of risk. If the system, pre and post ARGA, knows about the risks associated with financial reporting, financial sustainability and governance at an earlier stage, it is to the benefit of the whole system, allowing for earlier intervention to arrest problems before they get any worse. That is not a criticism of any part of the system, but a well-functioning system needs to get to that point. I see that as a critical success measure.

Catherine Frances: The critical change within local government audit regulation, which legislation would enable ARGA to take on, is removing the setting of the code of practice from the NAO. That is the only specific power that is of relevance, notwithstanding the wider issue about ARGA's formation, on which Neil Harris is entirely clear.

I just wanted to make that clear because the NAO has committed to lay the code of practice for the next period, covering all of the procurement period, so auditors have confidence and so the system is working very well. In practical terms, although the legislation is very important, we are getting on with it. We are just working to join it all up.

Q88 Sir Geoffrey Clifton-Brown: Mr Harris, given the delays in setting up ARGA, which we have just been discussing, would it have been better to have set up a separate new system leader for local government audit, as Redmond originally recommended?

Neil Harris: I am not going to comment on the particular proposal Sir Tony Redmond made at the time. It has been addressed since that the FRC is seen as the appropriate system leader ahead of ARGA, and we are delighted to take on that role now through the memorandum of understanding. We will deal with the same systemic challenges Tony Redmond raised in his report.

Sarah Healey: It is worth me saying, as well, that new bodies need legislation. The thing that is holding up the creation of ARGA is legislative time.

Q89 Sir Geoffrey Clifton-Brown: I get that. Do you have any information for us as to when that slot might be available?

Sarah Healey: As the Chair made clear, it is not up to me. The timetable for legislation is not within my purview, sadly. That is a balance of decisions across Government. I am just saying that setting up a different new organisation would not necessarily have been faster.

Q90 Sir Geoffrey Clifton-Brown: No, I understand that. Thank you, Ms Healey. Can I stick with you? What prevents the simplification of audit requirements and how can it be overcome? You have already mentioned the derogation you have on valuing assets. Is there any further



simplification you could do?

Sarah Healey: There is a whole range of players in the audit sector that establish standards. We have talked about almost all of them today. There were other simplifications that we have not mentioned yet. For instance, CIPFA is not requiring IFRS 16 to be implemented in order to enable some of the backlog and timeliness issues in local audit to be tackled before we add extra requirements.

You will be aware that Tony Redmond recommended a simplified statement to be put on top of local audits. It has been decided not to press forward with that right now, even though it is itself intended to enable understanding of what is being said in a local audit. At the moment, it is simply an extra thing local auditors would have to do. That is why we are holding that back for a time when the timeliness and backlog issues in the system have been dealt with.

As Mr Harris said, the aim is to have timely and high-quality accounts. He agreed that we would not want to see quality drop simply in order to drive timeliness. The broader question is always about keeping under review whether there is anything we can do to make local audits more useful to those who depend on them for information, transparency and accountability. That is something we are always open to considering.

Q91 **Sir Geoffrey Clifton-Brown:** I saw you nodding your head, Mr Harris. I am going to come back to you and give you a chance to talk about this. You will be aware that this Committee has commented on the impenetrability. Unless you are a local government auditor—say you are an ordinary councillor—it is almost impossible to understand these accounts.

Is not there a danger of the perfect getting in the way of the good? You tighten and tighten the audit standards to try to deal with the systemic risk, but then you make the whole system not work any better. The two things are in contrast here. Clearly, we want the best possible standards, but, if it does not make the whole system better, we are not achieving anything.

Neil Harris: The first thing to say is that the FSC is not responsible for setting the financial reporting framework. However, I do recognise the point. There has been a consensus across the system, since I have started in my post, about resetting the purpose of local audit and financial reporting. That is why I made the point about having a roadmap to sustainable long-term reforms.

There is work to do through the liaison committee to commission lots of people, particularly professional institutes, to set out what simplification and a set of accounts that is valuable to the users of the accounts would look like. That is work that would take a long time to implement. In the short term, as Mr Crawley mentioned, we have to work within the existing framework to see where there are opportunities to be more



proportionate about risk and where the focus is put in terms of financial statement disclosures and then audit.

Sir Geoffrey Clifton-Brown: Ms Healey was alluding, I think, to this new IFRS 16.

Sarah Healey: It is IFRS 16 on the treatment of leases.

Q92 **Sir Geoffrey Clifton-Brown:** This is the one that deals with valuing leases. At a time when the whole system is in arrears anyway, why on earth would we want to be putting a whole new layer of complexity into local government audit?

Sarah Healey: That is why CIPFA has said we are going to hold off on the implementation of that for local audit.

Q93 **Sir Geoffrey Clifton-Brown:** Is the proposal still in train or has it been delayed indefinitely?

Catherine Frances: CIPFA has proposed to delay its introduction. CIPFA is responsible for the accounting framework locally, but is bound by the financial regulation accounting standards at national level alongside all the international standards.

Absolutely in line with your point, Sir Geoffrey, given that we are so mindful of timeliness, we and CIPFA have talked about the right sequence for the various new pieces of work coming in. CIPFA took the decision to delay IFRS implementation in this area in order to allow additional capacity to come into the system. We thought that was very sensible. Similarly, it has delayed the stuff about having an overarching statement on top of the accounts for exactly the same reason.

There are so many parties here because this is about financial standards. DLUHC does not govern financial standards.

Chair: Yes, we understand that.

Q94 **Sir Geoffrey Clifton-Brown:** On that same subject, that question was dealing with future standards, but what about present standards? I understand you and Ms Healey were talking about the derogation of valuing assets, but some people think the existing system of valuing assets does not make any sense. If you have a school or a road, the value is largely going to be the same as it was the year before, plus possible additions. Why do you have to revalue it each year?

Catherine Frances: It is important that assets are valued correctly. That is important to say. It is for precisely the reason you talk about that local councils have said, "I have a road. I have a coastal defence. I have something like that. It is not of immediate pertinent use to me to revalue that item. Given the enormous delay in my audit, that is not where the focus should be".



It was precisely to lift that requirement off the auditor and the council that we laid our statutory override in December, so as to allow people not to do that. Before we laid that statutory override, other professional bodies also looked at that. CIPFA looked at that, as did FRAB, the technical body that looks at financial accounting. For various reasons, they were unable to reach a solution that was entirely valid from their perspectives, and so we took the decision to legislate in order to lift that burden off people.

I totally recognise the description you are talking about. In the long term, in the future, we need to find a solution.

Sir Geoffrey Clifton-Brown: I entirely accept that. That is a really helpful answer. Is this override going to be linked to getting these accounts up to a timely level? Will it exist so long as there is a significant backlog in the system?

Catherine Frances: We have said it is temporary for the time being. We do not have any long-term plans about it, but, clearly, it is part of the toolbox for us to work out, first, how we get the backlog cleared—that is the critical part of that—and, secondly, as we have all talked about, longer term, how we get the whole system shaped right and measuring the right things. That is not only for us in DLUHC. We have to make a lot of partners comfortable with this.

Chair: Thank you very much. It has been an interesting session. We have not really gone into what local councillors need in terms of their toolkit to do this.

Sir Geoffrey Clifton-Brown: Could I just come back on Ms Healey's answer?

Chair: Yes, but just let me finish my sentence. The Redmond review also proposes a discussion at council of annual accounts, which, as a Committee, we would agree would be a welcome step.

Q95 **Sir Geoffrey Clifton-Brown:** On your answer, Ms Healey, about deciding not to proceed with the simplified statement, presumably there were two reasons for that. First, the statement itself would need to be audited; secondly, it would impose additional work.

Sarah Healey: Yes. Right now, let us not change things that we do not absolutely need to change. Let us get the timeliness of current accounts and the backlogs dealt with before we start making changes that will inevitably cause burdens and questions for local auditors, however helpful we think those things might be to the system in future.

Q96 **Sir Geoffrey Clifton-Brown:** It is not ruled out forever.

Sarah Healey: No, absolutely not.

Sir Geoffrey Clifton-Brown: It is just until you get the backlog sorted



out.

Q97 **Chair:** Thank you very much indeed. I just wanted to touch on one other point. I will start with you, Ms Healey. We understand that there have been delays in the audit of some local government pension arrangements, which is having an impact on a number of Government Departments. Therefore, there is an impact on the National Audit Office and its work. There has been some concern in Whitehall that this Committee, among others, would take a dim view if the accounts were delayed because of this. Do you want to say anything about that? Do you have any thoughts about that?

Sarah Healey: I addressed this earlier. This was an issue in my previous Department; it is an issue for other Departments. It has been discussed with the National Audit Office and in departmental audit committees. I am keen to do anything that I can do from a DLUHC perspective in order to assist with finding a resolution that is proportionate and reasonable, and manages the risk of not having those valuations in full when signing off other Departments' accounts.

Q98 **Chair:** You use the words "proportionate" and "reasonable". This Committee's view is very much that, if it was proportional and reasonable, and done in conjunction with the National Audit Office, we would not be critical of a Department that, in order to finalise its departmental accounts, made an arrangement to have a derogation or qualification relating to the pension element, as long as it was exceptional and did not become a routine matter.

I do not know whether the Comptroller and Auditor General wanted to add anything here.

Gareth Davies: That is very helpful. If the only outstanding issue, as it has been in some arm's length bodies of the Departments you have mentioned, is assurance from the local government pension scheme, we can give a clean opinion except for a limitation of scope on that one issue. It would be very clear from the audit reporting that that was the issue it related to. That is the key to avoiding unnecessary delays to quite a string of arm's length bodies and two big Departments. It is in active discussion.

As you say, that is not to say we would want to see this becoming a permanent feature of those opinions. Otherwise, we are just sitting there, waiting for audits to be completed at a local level and putting an unnecessary delay on national accountability.

Sarah Healey: Indeed, and that seems like an unsatisfactory situation. I am very happy to discuss with colleagues how we address that.

Q99 **Chair:** Hopefully by saying it here the Committee's position is clear. We would not be hauling you across the coals for coming in with a qualification on that basis as long as it was agreed reasonably and we did not see it becoming a regular thing. It is not a free-for-all, but this



Committee is reasonable in its approach.

Sarah Healey: That is very helpful.

Chair: We understand that there are sometimes practical issues. We would not cause any challenges for a Permanent Secretary or an accounting officer, if this was agreed in advance with the National Audit Office.

Sarah Healey: My successor at DCMS will be very grateful for that.

Chair: It is not just there.

Sarah Healey: It is also the Ministry of Justice; there is a whole range.

Q100 **Chair:** For those who are watching and wondering what we are talking about, a lot of people were taken into arm's length bodies and put into the local government pension scheme. We are often talking about very tiny elements that do not have a material impact on the accounts and the audit of a Government Department, but nevertheless prevent a full picture. We can progress on that basis and, if necessary, we can have an exchange of letters.

Sarah Healey: Of course, thank you.

Chair: That will presumably be with you, Ms Healey, but let us know. We will work it out.

Sarah Healey: We will work out exactly who should be written to, to give them the assurance they need.

Chair: Yes, and we will keep the Treasury Officer of Accounts, as ever, in the loop.

Thank you very much indeed for your time, everyone. The transcript of this session will be available on the website uncorrected in the next couple of days. Given the timetable, we will not be producing a report until some point after the Easter recess. Thank you very much.

Levelling Up, Housing and Communities Committee

Oral evidence: Financial Reporting and Audit in Local Authorities, HC 1196

Monday 15 May 2023

Ordered by the House of Commons to be published on 15 May 2023.

[Watch the meeting](#)

Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Mrs Natalie Elphicke; Ben Everitt; Kate Hollern; Andrew Lewer; Mary Robinson.

Questions 1 - 96

Witnesses

I: Sir Tony Redmond, Author of the Redmond Review; Neil Harris, Director of Local Audit, Financial Reporting Council; and Sarah Rapson, Deputy CEO, Executive Director of Supervision, and future Chair of the Liaison Committee, Financial Reporting Council.

II: Ed Hammond, Interim Chief Executive, Centre for Governance and Scrutiny; Dr Henry Midgley, Assistant Professor in Accounting, Durham University; and Professor David Heald, Emeritus Professor, University of Glasgow.

Examination of witnesses

Witnesses: Sir Tony Redmond, Neil Harris and Sarah Rapson.

Q1 Chair: Welcome, everyone, to this afternoon's session of the Levelling Up, Housing and Communities Select Committee. This afternoon we have our first evidence session in an inquiry into financial reporting and audit in local authorities. It is a subject that sometimes appears a bit dry, sometimes is very complicated, but is extremely important for the people we represent and the services they receive at local level. We have before us this afternoon two panels to give evidence to us. I will come over to the first panel in just a minute, but first of all I ask members to put on record any interests they may have that may be directly relevant to this inquiry. I am a vice-president of the Local Government Association.

Kate Hollern: I employ a councillor in my office.

Bob Blackman: I am a vice-president of the LGA and I also employ



councillors in my office.

Ben Everitt: I am a vice-president of the LGA. I employ a councillor and I should direct the Committee to my entry in the Register of Members' Interests.

Chair: Can we go to our panel this afternoon? Thank you all very much for joining us. I will go down the table with Sir Tony first and ask you to say who you are and the organisation you are representing this afternoon, or why you think you have been invited along in terms of your particular expertise.

Sir Tony Redmond: Good afternoon, everyone. I was the author of the Redmond review into local audit, which you are discussing today. My background is that I was Chief Executive of a local authority and Chief Financial Officer of two local authorities. I was also subsequently the Chairman of the Commission for Local Administration in England and the local government ombudsman. Since that time, I have worked on a number of local authority assignments and I am currently the Chair of the Improvement and Assurance Board, Nottingham City Council.

Sarah Rapson: I am the Deputy Chief Executive and Executive Director for Supervision at the Financial Reporting Council. I am also the incoming Chair of the Liaison Committee, which is the body that convenes all the different parties in the local audit ecosystem, which is important for us as we take on our role as the incoming shadow system leader for local audit.

Neil Harris: Good afternoon. I am the Director of Local Audit for the Financial Reporting Council. I am responsible for building a dedicated local audit unit within the FRC ahead of ARGA to perform our roles and responsibilities in the memorandum of understanding that has been agreed with DLUHC, associated with our role as shadow system leader for local audit. My background is that, prior to the FRC, I was a key audit partner for EY for 10 years, responsible for a multiplicity of external audits of local government bodies, police and fire bodies, and NHS bodies. Prior to that, I had experience through graduate trainee up to district auditor in the Audit Commission.

Q2 **Chair:** Thank you all for coming this afternoon. I said this is a complicated subject. Can we begin with a nice easy question, then? What is the purpose of local authority accounts and what role should they have in supporting local accountability and democracy?

Sir Tony Redmond: There is a technical answer to that, but I am going to start with one that I think best represents the way in which people view local authority accounts. First of all, I think that they are there to ensure a proper and accurate historical record of spend and income over a period of 12 months to conform to statutory responsibilities and, I think most importantly, to hold the local authority to account for the way the money is being disbursed, and then—this is something close to my heart—to try to communicate with council taxpayers and service users



exactly how the local authority has discharged its responsibility by spending money on local authority services.

Sarah Rapson: I would make three points. First, the accounts themselves are a vital part of local democracy, enabling users of accounts, taxpayers and local elected representatives to be able to hold public bodies to account for performance as it relates to financial, risk, VFM and decision-making. Secondly, and importantly, is being transparent on the financial resilience and sustainability of a public body. Thirdly, for audit it is important that the accounts meet the standards that they are supposed to and the audit is the assurance that gives us confidence or otherwise that that happens. It also has a role in identifying any early warning signals that there might be problems at particular public bodies so that mitigation actions can be put into place.

Chair: We will come on to audit in some of the questions a bit later. It is just the purpose of the accounts at this stage and what they are there for.

Neil Harris: The only item I will add is that I think that, since I started in my role, there has been an acceptance that the local authority financial statements and accounts have been described—certainly to me and a number of others—as being impenetrable, and they are becoming increasingly complex and harder for taxpayers and other stakeholders to understand the financial position of a local authority. For that reason, we very much welcome the timing of this inquiry. I think that this will very much support the work that we are doing, as a shadow system leader, to set out our priorities on the local audit system and having sustainable reforms.

Q3 **Chair:** All the questions have been answered in all the responses in terms of looking backwards: this is an indication of how the local authority spent its money, so you can question it and hold it to account. What about the other side of it, how far the accounts are there to help decision-makers going forward as to what budgets are available and what finances are available to do the things that councils might want to do?

Sir Tony Redmond: It touches on what Neil was saying about financial sustainability and, indeed, what was said before. For me, the biggest problem is that the accounts are perceived to be—and rightly so—an audit of historical accounts. They are 12 months, which is the ultimate responsibility of the auditor to verify. That is fine, and alongside that there is a duty about going concern, to make sure that there is an acknowledgement that the auditor is looking not only at the actual spend and income within that year but is also looking beyond to see what that tells the auditor about the financial resilience of the council and how it is going to be in a position to manage its affairs subsequently.

That is one of the areas that worries me because, although I recognise that there is a responsibility there—and I recognise that some attention is given to that—I think that sometimes there is an opportunity to look



more critically at the underlying situation facing a local authority, in terms of finances, to test whether or not there is a resilience issue and to highlight that as quickly as is possible.

If one looks at local authorities generally at the moment, a number of local authorities struggle and they end up in difficulty, or most “failing authorities”. This does not happen overnight. This happens over a period of time. Therefore, the quality of the management of those accounts and the auditing of those accounts could be looked at in a forward look rather than simply an historical look.

Q4 Chair: Isn't there just a basic piece of information? Sarah and Neil can answer this. If you are a councillor—and it is a long time since I was a councillor—each year you come to a budget-setting process, and one of the first things you want to know is how much money is in the bank, how much money is in the coffers, what form those reserves take for the council and how spending in the past allows you to think about spending going forward. Do the accounts do that at present?

Neil Harris: I will answer this question, Chair. There is a lot of information already within the financial statements that would answer those particular questions. The difficulty is that they are hidden within financial statements that, in some places, are close to being over 200 pages long. If you were to unpick certain parts of the accounts, you would see that there is something called a movement in reserve statement. As Tony has already set out, there is much more information provided on going concern disclosures, narrative statements on the future financial position of a local authority, levels of borrowing, and exposure to commercial investments, for example, that you can pull out of financial statements.

The problem is that they are too complicated to unravel and I think there is a case to ask what the key bits of information are that are important for the users of the accounts and those who are making the decisions, and whether they can be summarised in such a way that those making the decisions—in terms of providing funding to local authorities, decision-makers within councils themselves, and particularly taxpayers and others—have the information at their fingertips to be able to understand how an authority is performing and its future challenges.

Chair: I think that Ben Everitt is going to follow all that up in more detail. Do you have anything further to add, Sarah, at this point?

Sarah Rapson: I am sure we will get on to it. When you have more than 500 accounts that are not laid, it is not decision useful at all, is it? It would be important to have a conversation about what we need to do about the timeliness of more than 500 local authority accounts not laid at the end of last month.

Chair: We can follow that up in due course.



Q5 Ben Everitt: Sir Tony, thank you for your first couple of answers there. They were incredibly clear both on the purpose of local authority accounts in and of the annual statement of what is in the bank and what the authority is up to but, also, in terms of how it can or should provide a bit more of a view. How are we in the situation that we are clearly not getting that, and that accounts from local authorities are falling short of giving that fairly basic level of accountancy transparency?

Sir Tony Redmond: I would start by saying that the accounts are correctly representing the activity of that particular financial year. Some of the difficulties that local authorities encounter is that there are underlying weaknesses and shortcomings in the way the authority is investing, how it is spending its money, and how it is financing particular projects, including commercial ventures. The question then arises: if none of those appears directly in that year of account, how will the auditor identify, spot and action anything that should flow from it?

We can talk about the capacity of the audit. It is already very difficult. There are so many years of accounts outstanding, not closed, not audited, and, therefore, there is a capacity problem in how the auditor focuses on that that is essential to complete the task of the year account. What that means in practice is that there is not perhaps enough attention given to the financial suitability and sustainability of the council as things that happen in that year will impact subsequent years. As we all know, the last thing one wants to do is to see this situation deteriorate. It is better to action it as soon as is possible.

I do not think that the current structure, given the resourcing of the audit function—even though it has been significantly improved with the recent PSAA contracts and there is more resource given to it, there is still such a series of accounts remaining unaudited, a huge number. That must be the challenge for auditors on the ground. What you are saying is, “Why cannot we deal with the wider question?” I think that the wider question cannot be addressed because of the capacity problem. It is a fundamental weakness at the moment, which is causing concern. We have local authorities that are subject to intervention, commissioners being appointed. When one looks behind those, one might take a view that there could have been an earlier attention given to the shortcomings and weaknesses in the way that authority has been operating.

Q6 Ben Everitt: Is this capacity in local authorities themselves or is it wider in the sector as well? Essentially, what we are doing is we are asking local authorities to produce or procure a set of accounts that, by and large, is not telling them what they need to know. You don’t know what you don’t know, and the system we have at the moment is not flagging up the things that would give those early indications of financial unsustainability, exposure to commercial risk and all the rest of it.

Sir Tony Redmond: I think the fair way of looking at this is that the auditors are giving attention to that that they must do first, and they



must audit the year of account. That is absolutely fair and reasonable. That is fundamental to what they seek to achieve.

They have other responsibilities, as we said before, such as the going concern question. There is just not enough capacity to explore that in the depth it should be. While the last thing I want to do is revert back to pre-Audit Commission days in terms of what might now happen, I think that there is an important question that was raised in my review by so many chief financial officers, and indeed auditors, that there is not a dialogue and engagement continually between the two parties to talk about things that may be going wrong or could go wrong. That dialogue is so important. Before you get to the formality of issuing public interest reports, there is an opportunity here to identify the problem and stop it at source rather than allow it to get worse.

I think that is the underlying problem. The informality that used to exist between the two parties, which I hope now will return—there is no reason why it should not—that engagement will head off some of the major problems that local authorities are facing.

Q7 Ben Everitt: Given that, as we have heard, some of the accounts are so massive that they are almost impenetrable, do you think that there is a need to focus on those key things that would drive out the issues that are of most concern around financial viability and risk? If that is the case, then is there a need for some simplification, within the current resource constraints, in the way that we look at accounts and produce accounts?

Sir Tony Redmond: My review concluded that it is essential that the impenetrability that Neil referred to be addressed, and I am suggesting a standardised statement of service information and cost. Every local authority has to produce a minimum of financial information that is readable, understandable and comprehensible to the wider public. Everybody will be able to understand what is going on. That is the first thing.

The second thing is that in terms of accountability for what a local authority has done, I think more can be done to explain that in a simple fashion rather than rely on the accounts and say, “We produced the accounts. You read them and tell us what you think”. There is a need to be much more transparent in the way the local authority conducts its affairs from a financial perspective.

Ben Everitt: I am assuming that you have concerns in relation to the delay on the implementation of summarised accounts.

Sir Tony Redmond: Yes. I think that is fundamentally weak if one has a situation like that. It is not acceptable.

Q8 Ben Everitt: I will throw it open to Sarah and/or Neil. The FRC is about to catch this ball. What concerns do you have?



Sarah Rapson: To start with, you are right, we are about to catch the ball. We are currently the incoming shadow system leader. We are waiting for our remit letter from the Department, which will set out our role in a bit more detail. Of course, to become the full system leader, we are waiting for legislation so that the FRC can become ARGA. It is really important.

Frankly, as the incoming system leader, our top priority is to get the right people in the room to tackle the backlog issue, the timeliness issue. As Sir Tony said, you cannot see the wood for the trees at the minute. You do not know what problems there are because so much of it is late.

I would agree with Sir Tony that there are problems around capacity and there is a problem around complexity. On capacity, it is both the audit firms themselves and the financial teams in the local authorities. There are capacity constraints there. There is not enough of a pipeline coming through in the profession, frankly, and it is hitting both sides. I think that we would all probably agree that the complexity of what needs to be produced is impenetrable to the user, who wants to be able to make decisions and to hold the public bodies to account. On your phraseology around simplification, I think that proportionality also needs to be an objective for us to make sure that the system has as we become the system leader.

Neil Harris: The only thing I will add is that, when we look at the role of local audit in the memorandum of understanding, it does not just cover local authorities, police and fire bodies, it also includes the NHS sector. To get to a sustainable solution, you need to look at the interdependencies across all those sectors, not least that the audit suppliers work across those sectors as well in terms of their resource deployment.

Therefore, one of the challenges we are already seeing is whether we have a whole system view of what is happening within local audit, where the risks are and where we need to prioritise, notwithstanding that our immediate issue is addressing this backlog position that has been well set out by Sir Tony and Sarah. We do need to get sustainable reform, so having a comprehensive understanding of whole system risk is critical as well.

Sir Tony Redmond: Could I add something else? That is the role of the audit committee in terms of good governance and the way in which it operates and holds the council to account for what it is doing. It obviously works closely with the external auditor and internal auditors within the committee. There is a strong argument to look critically at the capability of that committee, whether they are properly trained and whether they have the skills, understanding and experience, particularly in the context of accounting, which is not straightforward by any means.

Even commercial accountants sometimes ask questions about how these local government accounts work. There is a lot to be done to improve the



capacity of the audit committee to do the work more effectively. I also think that there is a very strong argument to have at least one independent member on the audit committee, someone who has the background knowledge and expertise to support that committee in an effective way.

Q9 Ben Everitt: Finally, Sarah, the FRC has been pitching itself as an improvement regulator for years now. What would be the key thing to focus on working in partnership with local authorities?

Sarah Rapson: Timeliness is a top priority for us. The workforce strategy that was set out in the MOU is going to be very important. That is about building capacity, as we have talked about, one of the root causes of some of the issues there. We also have a role to support some of the smaller audit firms that are stepping into local audit for the first time. There are some of the larger audit firms that have been successful in the recent procurement, but there are also some smaller firms. There is some support and guidance that the FRC can provide, as we are doing with smaller firms in the audit market more generally, building on our expertise there to support the smaller firms coming in to do some more of this local audit.

Q10 Mary Robinson: Just quickly, Sir Tony, this issue of the lack of dialogue between auditors and councils I think is a very important one because then that is not going to flow through to the transparency that needs to be had. I wonder what the reasons are behind it. In all this we have to remember that there is a political dimension, and that may be the make-up of the finance committee, whether or not the right people are there on the right day, whether there is sufficient questioning. Is there another dimension to this rather than just that they are not communicating properly?

Sir Tony Redmond: I don't know whether it is another dimension, but I will try to explain what I believe to be the background and lead-up to what has happened.

When the new Act came in to change the nature of local audit, the abolition of the Audit Commission and so on, there was undoubtedly a shift in emphasis in the way in which auditors practise within local authorities. They took the responsibilities very seriously, but they took them in a very strict way limited to the audit of accounts, with less time given to the wider dialogue and conversation with the council, whether it be members or officers, so that they had a continuous understanding and appreciation of how the local authority was operating.

Equally, that was the opportunity for members and officers to give feedback to the auditors about how they think they are doing and comment upon individual matters that they think warrant attention. That has disappeared because we come back to the capacity problem. There wasn't a lot of time to do all these things. They are already running behind in trying to close the accounts for the year and audit them, so



there isn't the time and facility to do these other things, which are so important in terms of an effective dialogue and in apprising people of what was going on, on the day, at the time, and how they may impact the future.

It is not difficult to reinstate that, but it has to be consistent with the resources available within the council, at both officer and audit level, so that they can work together in an effective way. I am certain—I think that I can say this—that if that dialogue were to take place, the problems that have been encountered by some local authorities, in terms of underlying financial viability, could be headed off if those serious adult conversations could take place before anything went too far.

Q11 Mary Robinson: Is part of that perhaps down to the tendering process? Of course, these are private companies. The auditors are very different, aren't they? It is a competitive tendering field. Is part of it the tendering for exactly what is set out that they have to do and nothing else?

Sir Tony Redmond: It is part of it, but I think it is a cultural issue now. It is the way in which auditors perceive the role and they are perceiving in the context of the amount of time they have and the resources they have to do the job. One can well understand why they do not have the time to do these things that used to be part and parcel of the process in the past.

Chair: Moving on to the purpose of local authority audit, Natalie Elphicke.

Q12 Mrs Elphicke: We have touched on some of this material already, but there are a couple of aspects that I want to delve into on the purpose of auditing the local authority accounts. I am mindful that in those responses earlier there were a whole range of stakeholders. I guess the first question is: to whose purpose is it? Is it for central government? Is it for taxpayers? Is it for the councils themselves? Who do you think we are auditing for? Don't say all of them.

Sarah Rapson: I think this is the question of the day, really.

Mrs Elphicke: It is.

Sarah Rapson: As the incoming system leader, it has become clear to us that there is no common view as to the purpose of local audit, and we think that is the problem. Only when we have the answer to that question and are clear about it—and we might not get consensus but we have a definition and we know what we are corralling around—then we can start to make sure that the system is in service of that. At the minute, the complexity that we see is that you have lots of different participants in the system with slightly different and, at times, competing views. We welcome this Committee's inquiry because we think that this might help us to shape it, if we can get to consensus about the purpose of local audit, because we think it is missing at the minute.



Neil Harris: I have nothing to add to that, but I want to pick up on comments that Sir Tony made about the culture.

I spent 10 years as a key audit partner in EY. I have seen it on the other side in terms of undertaking external audits and issuing audit opinions, and I was previously a district auditor. There has been an incremental shift in the professional standards that have been expected of external auditors. If you go back to the comment we made about the impenetrable nature of the accounts and the complexity, it has probably become more understandable that there are certain complex areas of the financial statements where further and more detailed audit work has to be undertaken to meet the high professional standards that you would expect.

The issue now is the challenge of resolving this in a sustainable way, back to what the purpose of it is and making sure that the framework fits that. We have seen some good examples, and I accept Sir Tony's point that we do not see this consistently across the system. We do see a couple of recent examples where external auditors have used their powers within the National Audit Office code of practice to raise early warning flags of councils that are getting into potential decisions that increase their risk. The framework exists for auditors to do this. I think that we just need to encourage that a lot more and make sure we are clear on priorities and purpose.

Q13 **Mrs Elphicke:** Can I delve a bit more into that? Sometimes there is potentially a danger in seeing some parts of the public sector as not relevant or similar to other parts of business and industry, but if we just pause for a moment on what you have described there, Neil, this is a normal business relationship, isn't it? You will know this from your previous experience. The role of the external auditor is to observe, to review, to assess, to make recommendations, to advise, and to strengthen. It ultimately adds value and accountability. Why do we not see the same processes and themes come across from the private sector into public sector accounting?

Neil Harris: Unfortunately, it does go back to this complexity and what is set out within the framework. There are a lot of accounting adjustments—or what are called statutory overrides—that are included in local authority financial statements, which reverse accounting impacts so that they do not have an impact on the overall financial position that is disclosed at the year end.

Mrs Elphicke: That is no different from complex derivatives trading. Public accounting can be complex but there are lots of other areas that are equally, if not more, complex, particularly in financial services.

Neil Harris: I agree.

Mrs Elphicke: That complexity is just within the operation of the organisation. It is not intrinsic. It is not just a feature of local



government, is it?

Neil Harris: No, I agree. However, the example that I would draw out is the level of work that is undertaken on auditing the valuation of assets in particular. Local authorities hold a significant book of assets. Some are called specialised operational assets used in the delivery of public services. Those assets will never be sold. Local authorities also have investment properties and increasing commercial ventures. That is probably the bit I am referring to. Do you need that level of complexity and extent of work across all those assets, or can you be proportionate about the ones that are important to decisions that are taken by the local authority and important to the users of the accounts?

Q14 **Mrs Elphicke:** Wouldn't it be the decision of the particular external audit manager to assess what the key risk and key proportion was of those assets to its future? To the question—and I will come to you in a moment, Sir Tony, on this—in relation to the current and future performance, again this is not unusual looking at the shape and nature of accounting with regard to commercial, non-commercial, residential and combined assets.

Neil Harris: The external auditors have to undertake their work under the current financial reporting requirements. The current reporting requirements for specialised assets is that they are valued on depreciated replacement cost and contain a significant amount of estimation uncertainty, a degree of assumptions and reliance on external specialists, so they have the same complexity as any other asset. The auditors then have to work within that framework and say they can represent as much of a risk of material misstatement in the accounts as anything else. The auditors have to follow that framework.

The point is that if that framework was to be revised to say that there is a different way of valuing some categories of assets, it might then reduce the level of external audit work that is undertaken and the risk that external auditors assess.

Q15 **Mrs Elphicke:** We have seen some of that approach in other sectors; for example, the housing association sector and the different approaches in accounting there. Do you see this as a role of the FRC going forward to recommend areas where there might be a review of the type that you have described?

Neil Harris: Yes, we do have a clear role on that because we are convening a whole system. We have an ability to make policy recommendations either to DLUHC or other Government Departments but also to the professional institutes. Clearly, the timing of this Committee is extremely helpful because we are using the outcome of that to shape our priorities and the actions that we think should be taken across the system. Yes, it is very much going to be part of our role.



Sir Tony Redmond: One of the other challenges for local government is that if one looks at the balance sheet—and you talked about the private sector and the commercial sector—the balance sheet is not something that one can use to test the financial viability of a council. Yes, you can look at the reserves, the debt levels and so on, but an awful lot of what it contains does not represent a good test of the council's financial viability because it does not show it.

The other thing that I would add, in the context of your conversation a moment ago, is that the councils have to abide by the International Financial Reporting Standards. They have to comply with the Whole of Government Accounts arrangements. Therefore, all the late adjustments that Neil referred to in the accounts—which in a sense really distort the whole picture that you are trying to represent—make it more difficult and time consuming. There may be something that needs to be thought about in the wider context around Whole of Government Accounts and IFRS, the International Financial Reporting Standards.

Q16 **Mrs Elphicke:** I would completely endorse that as the next piece of work, if I may.

Following on this theme of what the purpose is of the auditing and who it is for, I am mindful that in your remarks there was a lot of very good comment about transparency, accountability, and the ability of the local taxpayer to get involved. When I look at the FRC MOU responsibilities, it is much more about setting the system up in place. It is all about that system, stronger governance, competition, capability, market supply, the entire framework of audit reports on the audit system. Do you think that we need to make sure that that element that you have described, which is so critical in your work of local accountability, is at the front of this new system?

Sir Tony Redmond: In answer to the question of what this is all about—from the point of view of why one audits and what one seeks to achieve by it—I come back to the basic point that the auditor is trying to ensure that they can give a fair and representative view of the financial position of the council by auditing the accounts, and that the outcome will then give some historical indication of how the council has done.

The problem then arises of what the council is trying to achieve internally. First of all, it wants to be assured that the accounts represent a fair view. Secondly, doesn't it want to hold itself accountable to its council taxpayers, its service users, the wider public, and the community? It is not going to do that by virtue of what is represented at the moment.

The financial stewardship of the council, which sits with the chief financial officer, is an important feature here, too. All these things come together in trying to represent to the public that we have looked after your money well. We have gone through the process of following the rules and regulations within the council and we have now had the accounts audited



and we have assurance that the money has been disbursed properly and the income has been received in a proper way as well.

That does not happen. Therefore, there are two things that I think come from that. First, as Neil has touched on, there needs to be a recognition that the purpose of audit is to give assurance. That is very important. However, the second thing is that it is about the way in which the council—and the democratic process comes into play here in accountability terms—can represent to its public how it has disbursed the money in a way that is consistent with the quality of the service that it is delivering to the public. Then we come into best value.

You quite quickly move away from a purely financial process, which you are trying to audit and verify here, into how you can look at quality and cost effectiveness of services. Deployment of the resources becomes critical then, and I think that is not disconnected from the purpose of audit. That assurance on best value is as important in some ways as how they have audited the accounts themselves.

Q17 Mrs Elphicke: As my final point on that, building on Mary's comments, would you agree that in making some of those decisions, where councils will have a different method, a different approach, a different risk appetite, those are political decisions for particular councils? How would you ensure that the audit function does not undermine that democracy for people to be making those decisions for the current and the future of their areas?

Sir Tony Redmond: I think what you have described is correct, but I would say that the council—and I am talking about the council, not just the officers, both members and officers—has a fiduciary responsibility to council taxpayers to act responsibly and properly in the discharge of expenditure and the discharge of the functions and services for which it is responsible. That is very important because if that is not fulfilled, then the fiduciary role is not fulfilled. I think that sometimes one sells it short. That is what I would say is critical, in answer to your question.

Mrs Elphicke: That is very helpful. Thank you.

Q18 Chair: I have one simple question. Why is so much money wasted valuing the roads that a council manages?

Neil Harris: In answer to my previous question, I think that this is just driven by the current reporting framework under IFRS and the fact that the valuations of roads are undertaken on the basis of depreciated replacement cost. There is a requirement then to account for those assets in a particular way. The information that needs to support that valuation needs to be robust and subject to audit. There have been enhancements in auditing and professional standards over the years, which require auditors to undertake and apply more scepticism over those valuations and to determine whether there is a risk that there could be a material error in the accounts.



Chair: Sir Tony is anxious to get in at this point.

Neil Harris: I think that has led to all the extra cost.

Sir Tony Redmond: I think that one of the frustrations that local authorities experience is that infrastructure assets are treated the same as other assets in terms of valuation, auditing and lots of technical assessments that go with them. Of course, infrastructure assets are not going anywhere. Yes, they can be subsequently sold in some way and there could be a question of how one values those in circumstances like that. There is quite a lot of frustration within the local government community about the fact that the time spent to audit infrastructure assets is not worthwhile.

Neil Harris: I will just add that the Treasury is undertaking a thematic review into non-investment asset valuations. The direction that the Treasury is going in is certainly one that we welcome, particularly on specialised assets. I think that there is a conversation still to be had on infrastructure assets.

Q19 **Mary Robinson:** I have a few questions on the FRC's dual role over local and private sector audit. Sarah Rapson, what mechanisms are in place to ensure that the new local audit unit is sufficiently focused on the local government sector and independent from FRC's remit for the private sector?

Sarah Rapson: First, I would like to say that the FRC's overall purpose is to serve the public interest by promoting high standards of financial reporting, governance and audit. For us, this new role is an extension of the day job and there is a lot that we can bring to bear to help to improve the way the system operates.

You are right that there is a need for the FRC—perception as much as anything else—to demonstrate that we can operate with the two hats that we have. One is the system leader and one is the regulator, and we regulate local audit. We feel very strongly that we can do both. We can hold both objectives separately. In fact, we have set up governance internally to make sure that Neil and his team are separate, that he feels very comfortable in challenging the rest of the FRC in our traditional regulatory role around, for example, inspection and policy development, all the way up through the oversight that the board will have on our work.

You may be aware that we will shortly be recruiting a non-executive director who has experience in the local audit market to add some strength to the overall governance. We are conscious that people have questions about us being able to operate with these two roles.

Q20 **Mary Robinson:** What are the challenges that you see that you will have to face in managing that role?



Sarah Rapson: In the same way as you look at all the different contributors and participants who have a role to play in the system—we have talked a bit about capacity and we have talked a bit about complexity—it is entirely reasonable for Neil in his role as system leader to check and to test the rest of the FRC’s work in local audit regarding its proportionality.

If in a system where we have a requirement that auditors need to value roads and our inspection activity is assessing that they have done that properly, is that right? It is an entirely legitimate question for Neil to pose to the inspection teams to say, “Are you looking at the right things and grounding the risk that is real in local audit as distinct from corporate audit?” That would be one example.

Q21 **Mary Robinson:** Neil, how much bandwidth do you think you will have for doing this?

Neil Harris: A lot. Since I have been here—I have been at the FRC now for about eight months—I would say that to date I have had no difficulty at all in being able to set out my view on what the FRC’s role is corporately and in terms of its regulatory functions in its key role in local audit. You are probably aware that the FRC has four faces. I think that it is important across local audit that we show that we are not just a system partner and an assertive regulator, but that we can be an improvement regulator and facilitate change as well.

I think that we have to show all that in our work on local audit, and I have a role to say, “Are there parts of the FRC that could do a lot of that and be visible and transparent about that?” That example that Sarah referred to is a very important one at the moment, about where the focus of the inspection is and clarifying what our inspection focus is and how we go about inspections of local audits.

The only other thing I would add is that, clearly, there is a question about our depth and expertise. I have come from a local audit background and I am delighted that I have a deputy director of local audit who is a local government finance practitioner. I am building up a dedicated team. I am pleased to say that we went out successfully to recruit for three senior project manager roles last week, who will again bring expertise into the local audit sector. In addition to an independent non-exec, I have a senior advisory panel member as well. There is that degree of integration within the FRC but we are building a very solid and dedicated unit that understands the sector as well.

Q22 **Mary Robinson:** Sir Tony, with regard to these mechanisms and building the relationships, do you consider that they will address the concerns that you expressed in your review around the system leader’s need for detailed expertise and a clear focus on the local audit sector?

Sir Tony Redmond: I have little doubt about the first part, the expertise, and I am increasingly reassured by what is going on in FRC to



try to maintain a separation of this function from the rest of the organisation. As you know from my report, I advocated an entirely separate operation.

The principles that I would want to see protected are those principles of being entirely separate from the rest of the organisation and having the ability to manage the resources available without a level of interference from elsewhere that might undermine the audit in any way, as well as the underlying principles and values attached to an oversight of local audit that are specific to that particular territory and field. I am hearing from Neil and colleagues that that is the direction they are seeking to go. We will have to wait and see how it turns out.

Chair: Moving on now to the district audit models. You might think that was a golden age that occasionally gets referred back to. Ian Byrne?

Q23 **Ian Byrne:** Thanks, Chair. I want to touch on the golden age. We have had a couple of statements as written evidence and I want to read them out to you to see if you concur with them. Professor Heald, who we will listen to later, writes: "The abolition of District Audit—was a serious policy mistake resulting from ministerial antagonism to Audit Commission". The audit committee at Horsham Council writes: "The demise of District Audit has been a catalyst for a reduction in governance, a reduction in accountability, a reduction in standards, a reduction in timeliness and reduction in quality". Would you concur?

Neil Harris: Not entirely. We have already expressed concern about the increased complexity of local government financial reporting, where the focus has been over time and the need to reset that. I accept that there are two areas where the system needs to work better. As a shadow system leader, I think we will have a role to provide more annual reporting on the state of local audit—a function that I think was always recognised within the Audit Commission—to set out our view on what is happening within the system. Are there areas of good practice? What are the common themes of improvement? I think that is something that has been lost over the years and something that has been a groundswell of whether we can reintroduce that. We think that it is an important activity.

Q24 **Ian Byrne:** Are there lessons you think we should learn from what we lost in 2012?

Neil Harris: Yes. I think that is one, but the second one is on the role of the district audit. I have operated in the role of district auditor and a key audit partner in an audit firm. I agree with Sir Tony that the principles of the district auditor having an ongoing dialogue with the senior management of the council, police, fire body, throughout the course of the year to understand their business, to understand risks, and to be able to have conversations at key points, not to prejudice the outcome of their audit, but to be able to come in at the right point and say, "We think there might be a risk in this particular area". Not to sign it off, but to come in at the right point and say, "Here are the questions that we would



ask". We will come back to it when we do our audit, but that dialogue and ongoing sense check can be valuable.

I recall having that type of role as a district auditor and, I would say, to some extent as a key audit partner within EY as well. I think that we need to create the proportionality of the work, so that more time and energy is spent by those key audit partners in the areas that matter and to bring the current view of value for money for councils and other bodies up to date.

Q25 **Ian Byrne:** Thanks for that, Neil. Sir Tony?

Sir Tony Redmond: First of all, I made the point in my report that I was not advocating the restoration of the Audit Commission, but there were features of the Audit Commission that I strongly argued should be restored or retained. One of them is about relationships. We have talked about the relationship and dialogue and so on. The relationship between the auditor and the local authority could be improved. I don't think there is any deliberate move on the part of the auditors to distance themselves from the council. It is a resource problem. It is the inability to do all they want to do within the resources available. That must be addressed because that is a critical factor.

The second point is that there is a fond memory of the district auditor among local authorities. It was there for a long time. There was an established process whereby they would work together and would hopefully highlight any weaknesses on either side and deal with them. We have to move on.

The underlying principle of a DA can still be preserved under the new arrangements, but I do not think I would go so far as to restore the Audit Commission because the underlying weaknesses that I have described in my review do not warrant the restoration of the Audit Commission. They warrant a very clear system leader. They need coherence and co-ordination in the audit effort, to ensure that it is clear and concise in the way it is represented to local authorities and discharged in local government. Yes, I think many regret the demise of the Audit Commission, but I think there is an ability to take out of what that Audit Commission represented as good practice and to retain it in the new arrangements.

Q26 **Ian Byrne:** I will touch on something then. If we use the example of Liverpool. Say we had the district auditor and that system in place the police used to have then as well. Would that have highlighted some of the issues so that we would not have had the commissioners in before then? Is that something you concur with?

Sir Tony Redmond: I was saying earlier that one of the biggest challenges that has been faced, since the demise of the Audit Commission, is early warning of problems. Those early warnings can be identified by either a statutory officer—chief financial or chief executive—



monitoring or by the auditors. It can be highlighted by either or both, and I think that has been lacking.

Sarah Rapson: I am not an auditor, and I hear lots of positive things when people describe the role of the district auditor. I think that we need to find a way of re-establishing the audit profession as a noble profession in the modern era. It is a noble profession. People should be proud to be part of this profession. Part of the workforce strategy that we are responsible for is about engendering and improving the overall attractiveness of the profession in the round. It is not just in local audit by the way, but we have the issue in audit more generally, which is why I think the FRC can bring something to the local audit conversation around that. Something that lifts the prestige and the perception of this being a noble profession is in our purview.

Q27 **Mary Robinson:** Very quickly, the issues about trust and prestige, if you like, of the audit profession, are important, but it has been damaged by some of the large businesses that have gone under and it has been shown that the relationship between the auditors has been too close to the company being audited. It has been damaging. Do you feel that that same closeness in relationship could damage the relationships with local authorities as well? Will a new system deal with that?

Sarah Rapson: We do a lot of work at the FRC with the audit firms in the corporate world, as you know. One of the things we have been clear about is the importance of having the right culture, which is about professional scepticism and management challenge. There is absolutely no reason why this ought not to be exactly the same.

In any inspection finding or any enforcement case that we undertake, typically one of the root causes is that the challenge was not done at the right moment. There is absolutely no reason why that would not be exactly the same in the local audit world as well. We support firms to build that set of behaviours around management challenge and professional scepticism to shift that culture, as both of my colleagues have described.

Q28 **Chair:** In the past, when the district audit had a problem—maybe a recalcitrant officer in local authorities with some new situation they were not sure about—they could always go to the Audit Commission for help. Is there anywhere now that an auditor in local government could go to get that extra help and advice? Is the process in place and is it used?

Neil Harris: I cannot give you a practical example. I can say from my experience that, yes, I have been able to use that before as a key audit partner in EY and there are networks and technical support available to audit firms when they need it. It is provided through the National Audit Office's code of practice supporting guidance notes, as well as technical networks that exist within the NAO. If something is complex, there can be specialist public sector legal advisors provided.



Q29 **Chair:** Why is it not used then, in the case of councils who have got themselves into real difficulties, for example? You would have thought the auditor there either might have spotted it or might have gone and said, "Can you help us because we are in trouble here?"

Neil Harris: This comes back to the conversation we have had throughout about the fact that we need to encourage more early warnings. I do not think it is the fact that these auditors have been reticent about using that support. It is encouraging the culture for earlier challenge and earlier warning, and using that resource at the right time and creating the conditions to do so.

Q30 **Chair:** Onto the backlog now, which is a key point. Kate?

Kate Hollern: Thank you, Chair. If you look at the outstanding audits, it is alarming that there are so few processed. A question for Neil, why is there such a backlog?

Neil Harris: I think that there is a multiplicity of reasons for that. I would say, coming in as the interim shadow leader before we have officially become that role once we get the remit letter, what we have really struggled to get—and I will be open with this Committee—is granular data from across the system that goes through all of the root causes of the delay. Everyone has a particular view about what that is, but we are lacking timely, accurate, reliable data across the whole system to be able to bucket those particular delays into categories so that when you work to determine the measures to address them, you know what measures will have the most impact. I think that is a challenge that we need to address going forward.

There is not one single issue that is creating this. It is a complex set of matters and, in some cases, it may particularly be about auditor resource constraints that may prevent work in some places, as Sir Tony has already mentioned. In other places, it would be the disproportionate amount of time that firms are spending on more challenging local authorities that themselves have finance capacity issues but are entering into very complex arrangements. There have been accounting issues around infrastructure assets as Sir Tony has mentioned. Year on year there are additional technical matters that come in as well. On top of that, it could be somewhere in the middle. It can be a bit of the auditor and it could be the local authority.

It is a complex picture, but we do not know the full extent of it and that is a problem. If you overlay that with the fact that we do not have a picture for the NHS, you can see why it is difficult to get to grips with what the real root cause is and how to tackle it.

In response to your first point, the issue is that it is getting to a crisis stage with 530. If we do not tackle this backlog now, there is a risk that backlog will get close to or over 1,000 by the end of the year. We have to take urgent and decisive action now across the system to address that



backlog, and then put a framework in place, going forward, to prevent this from happening again and have better early warning signs when these delays will happen.

Sir Tony Redmond: To add to that, one of the points that was raised with me during the course of the review was that the local authorities' finance staff were telling me that some of the auditors did not have a local government finance background and, therefore, did not understand the nature and complexity of local government accounting. That meant without that familiarity it took a lot longer to do things.

When I talked to the auditors during the course of the review, they felt some of the accounting staff in local authorities were not of the right order and capability. Combining those two things, alongside the overall capacity and resource problem that we described earlier, it is not surprising that we are now facing this disappointing backlog in the number of accounts that are not closed.

Q31 **Kate Hollern:** There is less resourcing within councils themselves. Do you think there has been any progress made at all on trying to reduce the backlog? I know you said that things are not lined up to get a clear picture, but do you have any sort of feeling that things are getting better?

Neil Harris: Without going into the technical details, the solution that was put in place on infrastructure assets has unlocked some of this; for example, since the start of the year some audit opinions have been signed, but it is nowhere near fast enough for the whole system to give confidence that this will correct itself quickly. All of the system stakeholders are resolved on the fact that more urgent action needs to be taken over the next couple of months, to prioritise what viable short-term measures need to be put in place to address this, to clear this backlog as soon as possible and bring the system into some thought to do as much of a reset as we can.

Q32 **Kate Hollern:** Obviously, we do not know the problems that will arise from the backlog. Could you give us any advice on the sort of things you expect to find because there have been delays and backlogs?

Neil Harris: We have talked about the fact that where we want to get to is a lot more early warnings. My worry is that, sitting in among 530 outstanding local opinions, there are a lot more issues to do with financial sustainability, governance and capacity issues within local authorities that have not yet been flushed out either by those particular local authorities or their auditors. That is the biggest issue of all that I am concerned about, in terms of public interest.

That is why we need to put something in place now to flush that situation out as quickly as possible. Any solution that is provided on the short-term position has to properly distinguish between those local authorities where auditors have particular concerns and the rest of the population that have



been caught up in the capacity issues that have been well set out in this Committee already.

Q33 **Kate Hollern:** I have read, “Audited financial statements is one of passive assurance. The absence of red flags and the knowledge that annual financial statements and the external audit have been completed provide a degree of comfort”. If it is just a passive agreement when there is a proper audit, some councils could be in some very serious situations. Is there a map on the different situations that you are predicting could come forward? How would you plan for that?

Neil Harris: I think it is difficult to say. We are working hard across the system on the viable proposals without creating unintended consequences to the system going forward. I do want to say that when external auditors audit the financial statements, they are doing so against the current framework—our international reporting standards and professional auditing standards—and inevitably that is looking backwards.

What we need to get to is the auditors using the flexibility they have within the National Audit Office’s code of practice around the value for money elements of the work as well. The framework already exists for auditors to call out any risks of significant weakness. Any weaknesses are identified as early as possible and, as I said earlier, there are some examples of auditors doing that already. That is the area we need to get more focus on, in my opinion.

Kate Hollern: I wish you well in that.

Neil Harris: Thank you.

Q34 **Mary Robinson:** Given that we have been discussing the backlog and the capacity and capability issues that are intrinsic to this—and it is slightly off remit, I know—but given that we are setting up 42 ICBs, which are collaborations between NHS bodies and local authorities, do you see any particular issues there?

Neil Harris: I don’t think we have a whole system picture so, yes, I think to begin with we need to understand what is happening across the local audit system as a whole and to understand the challenges within the NHS sector. There are big structural changes this year with the ICBs. There is also the introduction of new standards this year around leases accounting standard and new auditing standards, so I want to keep a close eye on the delivery of the NHS audits this year at the same time as we are trying to address this local government backlog.

When addressing one problem in one part of the system, we need to avoid creating another problem somewhere else. The NHS sector is less complex in terms of financial accounting but, nonetheless, the importance of high-quality audits and calling out early warning signs of distressed NHS organisations, particularly the new ICBs, will still be just as important for the work done on councils. I cannot give you a picture on where that is at the moment, but I recognise the point you are saying.



Q35 **Kate Hollern:** I am curious. When you are auditing, do you do a check on the procurement process used by the NHS or councils?

Neil Harris: The value for money arrangements that are set by the NAO are very broad. In theory, the external auditor can look at procurement and contract management arrangements, but they would do so where they believe there to be a risk of significant weakness. For example, there could be a significant contract that a local authority or an NHS body have entered into—significant to its overall size—and the auditor may take the view that there is a risk that this could have gone wrong and a risk of significant weakness. We will plan work to review the contract management arrangements put in place but not as a matter of course. Typically, you would expect the internal auditors within those bodies to do work on a regular basis to review the underlying systems and controls.

Q36 **Chair:** Mary has raised an interesting point there about ICBs. That is a situation where you have joint partnerships, and often it is encouraged to amalgamate budgets between local authorities and the health service, but local authorities have to balance their books each year and the health trusts do not. How do you go about auditing that difference?

Neil Harris: I think that there are particular rules set by NHS England about the reporting out of that currently within the CCGs. It was always about them breaking even between income and expenditure, and issuing what is called a section 30 referral if there was any breach in that. I may look to Sarah to provide some of her own experiences within the NHS sector, but you are absolutely right, Chair. There are different bases on the reporting for both NHS and local government.

I suppose when we look at this across the system, we need to consider where those differences are and what that tells us about the financial resilience, financial risks, complexity of reporting and if there is way to get a common way of looking at financial stability in partnerships of that nature. I accept the point.

Sarah Rapson: I am also a non-executive director at two NHS trusts and I have just been involved in a tender for an external auditor for one of them. We had a bid of one because there are not that many auditors on the bench. There are capacity issues here. Neil is right. The financial set-up and the more centralised nature of the NHS means it is a much easier system to oversee. The complication will be between the individual trust and how they fit as part of a system—an ICB or an ICS—where the money is delegated in a different way. That is an additional level of complexity which will take up more capacity. We have already described there is a huge constraint in that too.

Q37 **Chair:** You have local authorities who are held to account so they balance their budgets and a health system which basically fudges it, doesn't it? That is what goes on. In *Health Service Journal* the other day there was a very interesting article that applies to my own area of South Yorkshire. Everyone knows that individual trusts are in deficits but the ICB is



reporting that it will balance up. There is not the same degree of intensity about ensuring that that break-even at the end of the year happens as it would with a local authority. I do not know how you go about putting those two things together, because if the local authority will overspend a bit, you just put it onto the health service to make sure that the combined budget works, don't you?

Neil Harris: There is a complexity we need to get our heads around and bring the whole system together. I would say, though, that when external auditors plan and perform their work, they would always look at the projected out-term position for an NHS body and raise a risk of fraudulent misreporting or management override of controls and undertake work to make sure that those balances that have been reported at the year end are appropriate. There are appropriate audit procedures that auditors should be doing on those financial statements, I would say. Notwithstanding what happens system-wide to bring the NHS finances into a certain position, but individual organisations still have that responsibility to report appropriately.

Q38 **Mrs Elphicke:** Just a quick specific one on that audit backlog. Whose responsibility is it to ensure that the audit is completed in a local authority?

Neil Harris: I go back to first principles. Initially, it is the responsibility of the preparer of the accounts to do high-quality accounts and sufficient work—

Q39 **Mrs Elphicke:** I am conscious of time. Whose responsibility is it to ensure that an audit is completed?

Neil Harris: Ultimately, the audit firms are responsible.

Q40 **Mrs Elphicke:** No, that is the external provider. Who is it within the organisation and the local authority? The reason I mention this—actually, I will listen to your answer first. Who is it?

Neil Harris: I think to address this issue, it is the whole system that needs to come together, but I think we need to be—

Q41 **Mrs Elphicke:** I was afraid you would say that. The reason I wanted to highlight it is because this was a problem in financial services without having the senior management regime of people individually responsible. I have been conscious that throughout the evidence so far we have talked about institutions and we have not talked about individuals and individual responsibility.

I feel very European in that we have such a backlog, 9% of the 2021 accounts of audits published. That is shocking. I have been the chair of an audit and risk committee and I would not accept a situation where an external audit was not managed, and I would not accept a situation where the external auditor said it was the internal team and vice versa. That would be managed and resolved, and those audited accounts and the audit would be completed. Who is responsible and why is someone



not responsible?

Neil Harris: One of the things we will do, as part of addressing this particular backlog, is put in place clearer levers and consequences where timeliness has not been achieved. One of the things that does not exist at the moment within the local government accounts is what is called a statutory backstop date beyond which, if an audit is not concluded, there needs to be appropriate levers and consequences within the system. I think that is certainly one area that we should be actively exploring.

It is also being clear about which participants within the system hold the audit firms to account. PSAA have a contract management role over the firms, but within FRC we have a regulatory and supervision role as well. It is no one single person. I think we need clearer levers and consequences across the system, which, unless anyone wants to say the contrary, do not exist at the moment.

Q42 **Ben Everitt:** It might reasonably be argued that the section 151 officer is the single person that is responsible because, under the Local Government Act 1972, it is their responsibility to make sure—

Neil Harris: For the accounts, yes.

Q43 **Ben Everitt:** No, that the authority is financially managed and that would include the audit.

Neil Harris: Absolutely. That is why I said there needs to be clearer levers and consequences where that has not been met for whatever reason. As I say, I do not think that framework exists at the moment.

Sir Tony Redmond: I think that the problem is that the section 151 officer does have responsibility for the accounts and to make sure they are closed by the due date of 31 May. If they are not closed—and this is the situation in a number of local authorities where they have not closed the accounts—one has to look critically at how that has happened.

We talked about capacity of staff to do it, the accounting principles and so on that need to be followed. If they are not closed, you have the auditors having to wait for the accounts to be closed before they can carry out the audit, and then they may not be able to comply with their own timetable. It is quite complex at the interface between the different parties in trying to decide who is ultimately accountable for the failure.

Q44 **Mrs Elphicke:** Sir Tony, is that at the crux of actually getting to the new system, that you need to be really clear about who is responsible for each stage? Not an organisation, not a to-and-fro. Who is supposed to do what, and what happens if that person—not the levers and drivers or systems and processes—but that individual holding the particular office is accountable for their failure to deliver something that is so important? Otherwise we would not be discussing it today.



Sir Tony Redmond: I think that the other problem is that the PSAA, which has procurement contracts for audit—they oversee the performance of the individual auditors—but if the accounts have not been closed by the chief financial officer, then they have to wait anyway, so who is then accountable? It is more complex than it should be, but the integrity of the process is lacking as to who does what and by whom they should be accountable.

Q45 **Chair:** If that responsibility and accountability is sorted out, does the backlog disappear?

Sarah Rapson: There are all sorts of issues about the complexity and the capacity, and there is no one silver bullet to fix the system, is there?

Q46 **Chair:** It has to be fixed, doesn't it? The backlog is a complete mess currently. What simple things will be done in the next year to make sure the backlog comes down?

Neil Harris: As I say, this is our urgent priority now over the next couple of months, coming up with viable proposals to address that backlog position. We also need to set in place a framework to make sure this does not happen again. That would include all the things that you have discussed in this Committee about the future reporting framework.

Q47 **Chair:** Who is producing the framework?

Neil Harris: Ultimately, it will be for the Minister to sign off what decisions are taken in the short term to address this backlog.

Q48 **Chair:** Who is producing the framework for the Minister to sign off?

Neil Harris: FRC and DLUHC are working together.

Q49 **Chair:** What is your timescale to do that?

Neil Harris: We are currently working towards the end of June.

Q50 **Chair:** This year?

Neil Harris: Yes.

Sarah Rapson: Yes.

Q51 **Chair:** Okay. Moving on to the issue of the Office for Local Government.

Bob Blackman: Yes. Just when it became clear to everyone, the Government are now introducing the Office for Local Government. There is a clear risk that there could be some overlap or possibly even conflict with the work that is being done by the auditors. Neil, what discussion have you had with the Department in relation to the setup of the new OFLOG, if any?

Neil Harris: I will take this. The first thing to say is that as the director for local audit for the FRC, I will be part of DLUHC stewardship and accountability boards around the local audit system, which means I will



be able to see and to contribute first-hand to any developments, both in the work that they do to set a framework for intervening in any local authorities and the development of OFLOG. For me, it is important that the work that is done within the local audit system co-ordinates and links in with OFLOG. I do not see OFLOG as being any particular threat or conflict to the role that we will be taking on.

OFLOG, as I see it, has a broader responsibility for local authority service performance. Some metrics are used to assess that—levels of reserves and financial position will clearly be information that will also be collected across the local audit system. For me, the most important thing is how we share information between each other rather than OFLOG taking on the role that we are taking on. If I am part and parcel of DLUHC accountability board, I will be able to spot if there are any conflicts. I am involved already and am part of how that is shaped.

Q52 Bob Blackman: That discussion and decision has already been agreed, has it?

Neil Harris: Not at this stage, because OFLOG is still being developed as to what this will look like and its purpose.

Q53 Bob Blackman: How will that be resolved?

Neil Harris: That is not for me to comment. That is for DLUHC when they come to give evidence to you. All I can say to you is that I will be watching this.

Q54 Bob Blackman: At the moment, you do not know how that will be resolved. Is that fair?

Neil Harris: This organisation is being currently developed and setting out its purpose, so it has not been resolved yet.

Q55 Bob Blackman: Has discussion taken place with you about that setup?

Neil Harris: Yes, in overall terms, and I am clear that there is no conflict with our role as system leader.

Q56 Bob Blackman: How do you see the two organisations co-operating together going forward?

Neil Harris: I think it leads back again to how can we facilitate earlier warnings across the system. If OFLOG collect a lot more data around local authorities' service performance and other metrics, it will be helpful if that is fed into DLUHC and the local audit system to show some evidence or examples of where we can see some stress within particular local authorities. How is that being picked up within the local audit system? Everybody has one version of the truth, and we are doing relevant work in those places that are higher risk.

Q57 Bob Blackman: Sarah, do you have anything to add?

Sarah Rapson: No.



Q58 **Bob Blackman:** Tony?

Sir Tony Redmond: I have nothing to add to that, thank you.

Q59 **Chair:** Right. Sir Tony, going back to your review. If you were doing it again today, would you recommend anything different to the recommendations you made last time? Are you content with the way the Government are implementing your recommendations or are there outstanding concerns where you would like things done differently?

Sir Tony Redmond: On the first question, I have re-read my report a few times in the light of actual experience over the last couple of years since I produced the report. I do not believe I have put anything forward with which I would now disagree. I think everything that is contained within that report is still relevant, some of it more relevant than others in the seriousness of the situation in which the local authorities find themselves, with accounts not being signed off and so on.

On the response from Government, 19 of the recommendations are being progressed in some shape or form. Yes, the principal one of the office of local audit regulation is not, but in its place is a separate part of FRC to deal with much of what I was advocating. I think that some of the recommendations are now in a much graver situation than they were before. They are more urgent. They require more immediate action.

We talked about the signing off of accounts, but I also think that the financial sustainability and the resilience of local authorities is an increasing problem. I would argue that that has to be given the highest possible attention in the way in which these things will be addressed in the future. It sounds almost arrogant of me to say I do not believe I have got anything wrong, but I do not wish to revisit anything that I said at the time.

Q60 **Chair:** Your concerns are more about speed than direction.

Sir Tony Redmond: Yes, indeed.

Q61 **Chair:** Do you think the system that is being developed now rather than your simple office recommendation is more complex than it needs to be?

Sir Tony Redmond: The outcome is more complex in the sense that the operation relating to local government audit in FRC is a part of that operation, but, as long as that is given a separate and distinct position within the organisation, then I think that it fulfils the role without too many difficulties. I do not believe that there is anything being progressed at this point in time that is causing greater problems than I had anticipated, if that answers your question.

Q62 **Chair:** Two simple suggestions. Should local authorities have to produce a statement each year which basically says our finances are sound? If there are any serious difficulties, just as a company would have to report to the stock exchange, should local authorities have to report to their constituents, their local residents in that situation?



Sir Tony Redmond: I think that there are two parts to this. First of all, it is extremely important that the annual audit is concluded with a report by the auditor to full council. I think that it is important for transparency that the audit partner attends council and presents the findings. That is No. 1 for assurance.

Second, as we talked earlier about the financial reporting, I think every local authority should produce an annual report which reflects the annual accounts outcome alongside a comparison with the budget that was set when the council tax was determined, so that the council is holding itself accountable for what it said it would do and what it actually did. I think those two things together—the assurance that has been provided by the auditor alongside the council’s own accountability for what it has done in finance service terms—should suffice.

Q63 **Chair:** Any further comments?

Neil Harris: Nothing further to add.

Chair: Okay. Thank you, all three of you, for coming and answering a lot of probing questions about the current situation. Clearly, there are real worries and concerns about the situation of local audit and what that may be hiding away if auditing is not done in a timely and effective way. Hopefully there are not too many surprises down the way, but there could be and that is a concern. Thank you very much indeed, all of you, for coming today. That concludes our first panel. We move onto our second panel now as well.

Examination of witnesses

Witnesses: Professor David Heald, Dr Henry Midgley and Ed Hammond.

Q64 **Chair:** If we could move onto our second panel. Thank you very much for coming along today. To begin with, I will go around the table and ask you all to introduce yourself, who you are and the organisation you represent.

Ed Hammond: I am the Deputy Chief Executive, until last week having been the Acting Chief Executive of the Centre for Governance and Scrutiny.

Professor Heald: I am Emeritus Professor at the Adam Smith Business School, University of Glasgow.

Dr Midgley: I am an Assistant Professor at Durham University and Co-director of the Centre of Public Accountability there.

Q65 **Chair:** Right. We will go through some of the same questions that we went through with our first panel and see if we get any different answers. We can spot the differences as we go along. What is the purpose and role of local authority accounts? Do they have one in supporting local accountability and democracy? Ed Hammond?



Ed Hammond: Thank you, Chair. I think that you will find similar answers from me as you heard from some of your previous witnesses. I suppose in a basic sense, there are two functions—ensuring that accounting standards are being adhered to and a purported attempt to provide assurance on VFM. I use “purported” advisedly because, as we know, there is a challenge in the ability of external auditors to be able to provide a deep, more fundamental sense of audit.

Regarding who it is for, I suppose it provides assurance to taxpayers. It also provides support and assurance to members. We talked briefly in the last session about democratic accountability and that is certainly an element that is less explored in this space, I think.

Professor Heald: I agree with much of what was said in the previous session about users, but I noticed it was very confined to local accountability. There is a broader point that local authorities are part of the public sector as a whole and much of their expenditure is financed by central Government. There is a broader accountability. Part of that broader accountability works through the whole of Government account that is prepared by the Treasury.

At the moment, the whole of Government account is running more than two years late, or two years after the end of the financial period. One of the reasons why that is the case is the crisis in local audit. The point I want to make is that crises in local audit is an English problem. It does not happen in Scotland, it does not happen in Wales, it does not happen in Northern Ireland. That is not to say there are no problems in those jurisdictions, but there is nothing like a crisis. That is the first point I want to emphasise.

The second point I want to emphasise is that in 2011, I attended a meeting chaired by yourself about the abolition of the Audit Commission run by your ancestor Committee, the Communities and Local Government Committee. At that point, I forecast trouble from both the abolition of the Accounts Commission and district audit, but also from the obsession of cutting the costs of audit. That is where the problem has really arisen in England. There has been the collapse of central co-ordination of the system—and we heard many examples in the previous session—plus the fact that local audit has been made unattractive for the private firms.

If you want to outsource all audit to the private sector, you must make that audit profitable for the private sector firms. If you do not do that, you will have a problem with prestige of the local audit within the audit firms and a loss of interest. The one positive message I pass at the moment is that Public Sector Audit Appointments did a brilliant job in getting auditors appointed. There could have been a complete collapse of the system, but that was a lucky escape, in my view.

Dr Midgley: I would basically agree with much of what has been said. I think what is interesting here is to point you in the direction of the Treasury’s financial reporting review in 2019, which did exactly the same



exercise for central Government. They basically concluded—and I think that I would endorse this for local authorities as well—that there are three aspects to what accounts and audit as a system are delivering. Both of them deliver parts of this. That would be financial conformance, the fact that the money is stewarded well. The fact that the money is spent in a way that obeys the legalities, proprieties and regularities that we would expect from public money.

Secondly—and I think that Ed is absolutely right—value for money. That the money is being spent in some way in accordance with principles of economy, efficiency and effectiveness, and underpinning that, that the information that the outsider uses to scrutinise those assertions is credible and can be relied upon for the purposes of scrutiny.

Q66 **Chair:** Is it working?

Dr Midgley: I would say that there are significant problems that the previous session brought up with it, in particular, the accounting. You have a range of written evidence suggesting that. One of the areas that I think is difficult at the moment is to get a sense of local authority performance. If we are talking about the value for money part of this equation, you have some of the money element but you have very little of the value element that we can actually scrutinise.

Q67 **Chair:** We will come onto the value for money in full detail later on.

Dr Midgley: Yes. That would suggest to me that there is a problem here in things not working.

Ed Hammond: I would agree. I think that it is acknowledged by many that the system is in crisis. That word has been used many times. I would agree with that. The backlog is part of that. I think that there are systemic challenges, which you have heard about in the previous session, which will make it very difficult for the situation to be turned around quickly and easily, more fundamental issues about the structure of the market and the way that—obviously the recent PSA exercise has highlighted the ability, the fragility of systems in this space. Is it working?

In respect of the core accounting elements of it, it probably is despite the backlog. In the wider VFM and performance landscape there is an argument that it does not. The challenge is that obviously by the time you have reached a certain backlog on VFM issues, conducting those exercises feels superfluous really because the situation has moved on.

Professor Heald: But that is not an accident. There was a deliberate rolling back of the VFM part of local public audit after 2010. You had a rolling back of the VFM part, which is the part that is most likely to interest citizens, and the financial audit part got into problems less because of the complexity that everybody is emphasising. The complexity is not causing a crisis in the devolved Administrations' local government or in central Government. The crisis was caused by underfunding of the private audit firms.



I was quoted in the previous meeting as saying that the abolition of district audit was a serious policy mistake. I stick to that. I also say in my evidence that I would not argue for the restoration of a public sector audit capacity for local authorities. I would be very worried that that would disturb the private audit firms. You have to give the private audit firms incentives to get into the market and to stay in the market.

We have had the strange position over the current PSA round whereby several key audit partners were in firms that did not have any contracts. We have a shortage of capacity, a shortage of expertise, but we have stranded key audit partners. That reflects the failure of regulation of the system. Having abolished the Audit Commission, which was essentially the early warning system for local authorities in England, nobody stepped up. What is now called the Department for Levelling Up or the Treasury or anybody else stepped up to move into that early warning space.

Dr Midgley: Can I add one last observation, Chairman? One test of this is: do people use it? There was an interesting survey in the journal *Public Money & Management* earlier this year, which pointed out that I think it is 50% of back-bench councillors don't feel that they understand their sets of accounts.

Chair: Let's move on in more detail to that question.

Q68 **Andrew Lewer:** What is the most significant way that local authorities are falling short, that these accounts are falling short of their desired purposes? Is it citizens, is it value for money, is it accountability to central Government? Where do you think the main shortfalls are? I might as well bundle all this together. How could accounts be improved to address those problems and what are the barriers to that happening, if any?

Professor Heald: I think that you should not expect most electors or council tax payers to read local authority accounts. For most people, the assurance comes from the fact that the accounts have been prepared by professionally-qualified people and have been audited by professionally-qualified people and both of those sets follow prescribed standards. The assurance comes from the fact that you will get timely production of audited accounts. That is on the financial accounts.

I totally agree with Tony Redmond's proposal but, given the fact that you cannot expect the average elector to take an interest in complex documents, because local authority activities are complex anyway, you need a standardised summary prescribed by some organisation at the centre, presumably now the FRC, that sets out how the summarised accounts should be organised. You basically need a digest with a narrative about how to interpret it.

On local authority performance, local authorities, particularly in England, have taken very big cuts in their spending since 2010, so part of the problem is the fact that the finance functions of local authorities have



suffered. If I was an elected councillor, I would rather have teachers than accountants working for the authority. You can see that it is difficult to maintain the actual in-house finance capacity of the council.

In direct answer to the question, the evidence of failure on the part of the accounting and auditing system is that accounts are ludicrously late. The policy mistake was to downgrade value-for-money audit. My personal view, reluctantly, is that improvements in value-for-money audit will have to wait until the accounts get up to date. I agree with the comment a member made earlier that it is not much point having a value-for-money report on a year that is several years ago. Crucially, you have to get the financial accounts up to date, have a summary that is accessible to a significant number of members of the public and timeliness is the driving point.

Dr Midgley: I agree completely with the statement about the summary from David and Tony Redmond's idea on that. Another improvement that you could make is to turn some of this more digital, so look at what you can do in not just publishing a 280-page PDF but enabling people to drill down if they wish to. That is an improvement that could be made and the Department or somebody else centrally probably should lead on spreading best practice.

On your other question, the flaw is definitely on the performance audit and value-for-money side and the performance data side. I think there is some issue around if we are publishing this data we might as well, as David said, get it not just in the long-form accounts but also in a format that can be used.

Ed Hammond: I agree with much of the foregoing. I will add that part of the shortfall here lies around a lack of understanding about where local leadership and accountability in this space arises. I think back to Mrs Elphicke's challenge to your previous panel about who is responsible ultimately, which individual person.

There is an issue there where it is a bit too easy to say there is a collective responsibility for all this stuff, and I think that is great, but we need to think about who at local level holds distinct individual responsibility for action in this space too—the chair of audit is a member or an independent person, chairs or a specific chair of scrutiny, the cabinet member for finance, the section 151 officer, the head of internal audit. All these people should have defined responsibilities and duties clearly articulated, and shared responsibility within that as well, for the responsibility that they have in this space.

A lot of that is about the work that they do to create and bolster a culture and attitude within the authority of accountability and ownership on finance issues, the control environment, risk, performance, which ensures that everybody in the authority is pulling in the right direction.



There is a risk in talking about this issue that we look at and think about audit as being in a separate little box on its own, and that the duty of ensuring the financial security of the authority rests with the external auditor and the section 151 almost exclusively. There are many others who have specific individual responsibilities and I think we should do more to articulate that.

Going back to the point that was made briefly earlier about there is a clear councillor responsibility in this space as well, there is a need for councillors to develop significant additional skill and acuity in understanding finances, the accounts and also the interrelationship between risk, finance, performance and how that impacts on the council's ongoing financial position. Ultimately it is members who set the risk appetite of the authority and that can only be set based on an understanding of the financial challenges and pressures the authority faces. That is something for all members to be responsible for.

Q69 Andrew Lewer: We have members on councils who are receiving an allowance of £6,000, £7,000, £11,000, who have six, eight, 12 hours a week to give to this on top of everything else. Is that a very reasonable expectation on their part?

Ed Hammond: It is a fair point. I think that the amount of time that councillors are able to spend specifically on committee business may be even less than that. The weight of expectation on councillors for their ward individual responsibilities is enormous. I think that is why understanding how and where that responsibility can be shared between them, while keeping a sense of where individual responsibilities lie, is so important and also making sure that members have the support they need from officers to transact that duty effectively.

There is an issue at the moment where—and I would not say this is shared across all authorities—there is a tendency for support from professional accountants generally to focus on the needs of the executive rather than the broader needs of the authority at large. I think that we can develop more of a cultural understanding among finance professionals and also senior officers that back-bench members need that as well. In the last couple of weeks there have been significant changes of control, a significant turnover of members. There is a business continuity benefit in making sure that all members feel supported and they understand the financial needs of the authority, because those back-bench members could very well the next day become your new cabinet.

Andrew Lewer: Having become the leader of a council that had been run by opponents for 28 years previously, I can certainly say that rings some bells with me.

Q70 Mary Robinson: My question is on the purpose of local authority audit. You have touched on a lot of this, so feel free to add to it but not to go over the same points about what you feel the purpose of local authority audit should be. A lot of this has been about the figures summarised in a



way that people can see them and so on. To what extent might some local authorities think that it is not in their best interest for the democratic function? They might not want people to be able to look at and examine accounts because the first thing that people would do if they saw the summary is say, "Hold on, you have spent so much on this but you have not fixed the potholes". Does this work in the interests of poor local authorities?

Professor Heald: I have a more positive view generally of the motivations of elector representatives than that question suggested. Very clearly, people under pressure claim to be transparent and then try not to be transparent. Clearly one is aware of that incentive, but I think it is much more a system problem than something where I would wish to put the blame on individuals. One of the things that is very striking is that some local authorities took on much more risk. They engaged with fundamentally risky activities—and I question whether local authorities ought to be doing that anyway—partly in response to the reduction of block grant funding from central Government. To some extent their motivations might initially have been good but some undertook reckless activity.

I think the fact that the early warning systems did not bring up those is the crucial point. Even if local authority leadership would not welcome more transparency, I think there is a democratic argument for more transparency. That applies across the board at system level.

Dr Midgley: I agree with all of that. On your first question about audit, quite a lot of the importance of audit is providing either assurance or independent insight through reporting. I think that is the key element of audit. It is an independent check or verification or an independent insight or an independent publication of information about the council. Some of the complexity of what we are looking at derives from the ways local authorities are structured, for example the separation of certain funds like the housing revenue account that derives from legislation, or some of the complexities of government accounting, which relates in part to what David has just talked about in making electors and everyone know about the kinds of risks local authorities are taking on.

Ed Hammond: On the issue of the summary and bringing it to a wider audience, I don't think any council would come out and say, "No, we don't want to do this". I think you would find some councils probably saying, "We don't think this makes sense because the data is not sufficiently contextualised". That is often a useful proxy for when people don't want to publish something, to which the answer is, "Well, obviously you are free to contextualise it". I argue that seeing this duty alongside the duty that councils have separately to produce the annual governance statement is a good way of saying how can you take a rounded picture of finances to the public in a way that provides a holistic sense about the authority's strengths and weaknesses in given areas.



The AGS is meant to be preceded by a review conducted by the authority where you are putting the system and processes under scrutiny. That review should be picking up some of the early warning signs that we have been talking about this afternoon. I argue that that review could be seen alongside the short summary of the accounts but also alongside any other narrative that the council might want to put out by way, for example, of an annual report, as we have mentioned previously, to close off the previous year's accounts, so you have an idea of bookending at the annual budgeting process. One bookend is the full council's agreement of the budget multi-framework in January, February every year and then maybe the following May or June or July the previous year's budget is bookended through the production of the AGS, your simplified summary of the accounts and through an annual report. That feels like it has a degree of completeness to it.

It is about saying that the production of the simplified version is one element, one part of the story. It should provide you with a hook that you can use to go out to the community and explain, not necessarily always justify but justify also, what you are doing, why you are doing it, how you are doing it. It is part of the duty that the council has to talk about and communicate with its residents what its priorities are and should be informing and influencing wider approaches that the council is taking towards public involvement.

Q71 Mary Robinson: It is not really a legal duty though, is it? It is a responsibility more.

Ed Hammond: Yes, that is fair.

Q72 Mary Robinson: If it was a private sector set of accounts they may be qualified to set hares running but for local authorities it seems that it can be so unclear that people don't really know.

Professor Heald: I agree with much of what was said in the previous session, but where I disagree is that basically the problem is the use of IFRS and current values. The UK in the 1990s and 2000s became a global leader in moving to commercial-based accounts derived from IFRS. Much of the developed world is following but largely going to IPSASB international public sector accounting standards, which are very close to IFRS anyway. I think some people never accepted the move to IFRS and the Treasury 20 years ago pioneered the use of current values.

There was discussion earlier about the problems of depreciated replacement costs as a method of asset valuation and, for example, about roads, but the point is that the Office for Budget Responsibility shows every couple of years that the UK public finances are not sustainable at the present levels of taxation. Either taxes have to go up or spending has to go down in the longer term.

There are two issues there. One is about fiscal sustainability; our public finances are not sustainable. The second point is about intergenerational



equity. The UK is bad at infrastructure investment. It is bad at maintaining existing assets. I dispute the idea that the valuation of assets is purely a technical accounting matter. It is very important because we want to know what depreciation charges should go through to the present generation of citizens and taxpayers.

There was also discussion about some of the complexities of local government accounts coming from statutory overrides but the statutory overrides are quite often ad hoc things that have been done at various points in the past to stop the effects of genuine economic developments hitting council tax payers. It will not be a simple thing getting rid of the statutory overrides without regard to why those statutory overrides were put in place.

My final point on this theme is that one of the other aspects where the UK has run its local government system very badly is that England and Scotland are still charging council tax on the basis of 1991 values. That is positively ridiculous and makes it very difficult to defend a residential property tax, which I think is an important part of the tax system.

Q73 Chair: Going back to the assets, why do we need to value roads? You need to know what is the cost to repair roads but no one seriously is going to replace an A road through a local authority.

Professor Heald: The reason why you need to know the current valuation of a road is that one of the things the valuation process tells you is how much that road has depreciated, and that is the crucial point. The UK is not as bad as the United States in neglecting its infrastructure, but it is pretty bad. One of the ways we know that there is problem is from the information produced at the whole of government accounts level. One of the things that worries me about the Treasury's current proposals to move away from current values is that that will make the whole of government accounts based on a whole set of different kinds of valuation principles for different kinds of assets.

My hunch is that they will transfer some of the problems of audit from the local authority sector to the whole of government accounts level. The auditor will be saying that the assets in the national accounts are not valued on a consistent basis. It is important because I remember when resource accounting or budgeting came up, there was a Scottish health board that in the first set of accounts forgot it had a hospital. The important point was the fact that people do not keep proper asset registers unless it is central to accounting.

Dr Midgley: There might also be an argument that what matters is what is measured. To some extent if you are measuring the depreciated cost of the road network and you discover that the depreciated costs of the road network falls to zero, you know that you need to make repairs. There may be an aspect of that and that relies, of course, upon the actual cost reflecting the usage of the roads, but that might be one argument.



Q74 **Chair:** We value parks on the same basis, do we?

Professor Heald: Street furniture gets valued. The responsibilities of the public sector are difficult to define in the limit and it is always difficult to know quite what assets and liabilities should go on to a public sector balance sheet. What the UK has done with more extensive balance sheets on an accruals basis has provided better information at the aggregate level and the judgments behind what I said a few minutes ago about the UK's fiscal unsustainability.

Chair: Let's move on to the adequacy of the current local audit.

Q75 **Kate Hollern:** What is the most significant way that local authority audit is falling short of its desired purposes?

Professor Heald: The most obvious one is everything is incredibly late. I go back to my previous point that this is an English local authority problem, not the problem elsewhere in the UK.

Q76 **Kate Hollern:** Why is it an English problem and not a Scottish problem?

Professor Heald: I will give three explanations for that. The first point is that Audit Scotland, just using Scotland as an example, continues to organise an audit using a mixture of in-house auditors and private sector auditors. There was never the disruption that was caused in the early 2000s by the abolition of the Audit Commission, of district audit. The kind of relationship that one of the previous witnesses described about the interaction between authorities and the auditors has been maintained.

The second point is the pretty obvious one that England is a big country. Scotland has 32 local authorities. It is possible for people at the centre of government in Scotland to have a pretty good idea of which local authorities are financially capable and where the problems are. With more than 300 local authorities in England, it is very difficult. Also, the English local authorities started taking far more risks in commercial investments, town centre redevelopments and so on, than happened in Scotland. That partly reflects the fact there was tighter supervision. When the Audit Commission was abolished, the Department for Communities and Local Government, as I think it then was, had to take over the supervision role and the early warning role. That role has not been lost in Scotland, Wales and Northern Ireland.

Dr Midgley: To come to your main question, I think the real issue—aside from the timeliness on which I completely disagree—is the absence of value-for-money auditing. That is a real gap in the English system at the moment in the democratic accountability of the authorities and their accountability to back-bench councillors in particular. I add that to David's list.

Ed Hammond: I wholly agree. For me, the paucity of information about VFM is a big element. Also a big shortcoming in authorities' ability to be able to manage their finances effectively at the moment—and that feeds



through into the response to and engagement with audit—is the lack of multiyear settlements. That has an enormous impact on how councils think about their finances, risk, their future plans. Councils obviously are under an obligation to produce a medium-term financial strategy. However, given the inherent uncertainties involved in everything at the moment, that is exceptionally difficult to do. Connected to that is the difficulty that local authorities now have in making political choices about complex issues with multiyear ramifications.

One drawback and shortcoming of audit as it currently stands is about materiality, and auditors not being able to consider and necessarily having the skills and the reflective—it is unfair to say the reflective capability, but I suppose the ability and capacity to be able to think about the political implications of a given issue when it is presented to them. Local authorities obviously work in inherently political environments. Decision-making is all about high profile, contended political issues and yet to what extent does audit, in considering either VFM or other issues, engage with that political dynamic? That feels like a shortcoming, a shortfall at the moment.

Professor Heald: One has to accept that during the catch-up period there will be more audit qualifications. That is my message. It will not be possible to catch up over a reasonable timescale without accepting the fact that there will be more audit qualifications and that is a system-wide problem, not necessarily just a problem for the individual local authority. The other point is I would encourage the strong local authorities—the local authorities who do not have a problem—to demonstrate what can be done in the context of value-for-money audit and of pioneering the Redmond style summarised accounts. There is scope for innovation by the stronger local authorities, but it will take a significant number of years to deal with the tail.

One aspect of the problem is that the Financial Reporting Council fining Mazars for the audit of an unnamed local authority sent shock waves through the private auditors, and—from what people tell me—after a local authority has had its valuers while preparing its accounts the private auditors are now getting their valuers to do a valuation, both adding cost and taking time. Speeding up the system will require some guidance about what is proportional in the context of getting multiple valuations of the same thing.

Q77 **Kate Hollern:** Do you think this problem will be made worse by the number of pots of funding that councils have to bid into where there are lots of little pots? Of course, that is going to be much more difficult to audit and demonstrate value for money and accountability?

Professor Heald: I think that is a question to be put to auditors in terms of how much work that causes for the audit. It certainly causes a lot of work for the local authorities. It diverts the limited finance teams of local authorities into the process of being involved in the bidding for money and accounting for separate streams.



Q78 **Kate Hollern:** If there was one single thing that could help to ease these problems, which in turn would make it easier for the public to hold local authorities to account, what would you do? What would you change?

Dr Midgley: I wonder if to some extent—as the evidence in the previous session suggested and what David Heald has just said—some of the issues around timeliness are unravelling several issues at the same time.

As for improving accountability at the other end, I think the simplified accounts and value for money are the two things to point to, but there are two separate issues here. How we get the system working is one of them and then, when the system is working, does the system as it operates when it works, function the way that we want it to function? Those are two separate questions that would probably require separate solutions.

Q79 **Kate Hollern:** One must be done first; we need to get the system right?

Dr Midgley: To some extent. One of the things about getting the system right—and listening to the evidence of the previous panel was very interesting—is also deciding what it is that we are aiming to get to. We can all agree that timely accounts and audits and so on are the right places to go, but we need to have a clear understanding of what the roles of accounting and auditing are. That gives people something to aim for. It is one of the areas where I think this Committee can play a useful role, by telling the Department to set out its approach to getting from where we are to where we want to be.

Professor Heald: I would not normally say this, but pay the audit firms more money. I have not looked at the numbers recently but if you look at how much audit fees went down in the 2010s, which was claimed as a great success by the Department for Levelling Up, Housing and Communities, given that, given the withdrawal of resources from the audit sector, catching up would require more resources into the audit.

Local audit is a relatively marginal activity for the big audit firms and the partners in local public audit have to justify their use of staff and resources of the firms for doing the local audit, and so much uncertainty has been built into the system by the things that we have been talking about that it has become unattractive. Therefore, we have to accept that catch-up will cost us a lot of money.

Ed Hammond: I agree with Henry, in as much as saying that there is a short-term thing here and then there is a medium- to long-term thing. On the short-term thing, you have heard from others how we can bolster and support firms and their capabilities. I would point towards what I said earlier about addressing within local authorities those more cultural and attitudinal issues of individual and collective responsibility for finance, ownership of finance, performance management issues, risk management issues and risk appetite in the political space. In the short term, I think a lot can be done to develop more acuity and understanding about some of



those dynamics and some of the trade-off decisions that councillors are making.

In the medium to long term, as an organisation, we suggested some years back the establishment of local public accounts committees as a way to create an almost intermediary space between accountability at the local authority level and national stuff. The idea is that you would have committees that would operate at a slightly sub-regional level that would be responsible for looking at spend across an area—not just exclusively limited to local authorities—and making judgments about VFM in that context. It strikes me that that would deal with some of the VFM challenges that we have talked about this afternoon.

That said, I am always cautious about making broad structural suggestions, saying, “If you just set up this body, all the problems would dissipate somehow”. However, it feels as if there is a need for some function carried out by somebody to exercise more rigour, in and around VFM, in a way that understands the political dynamics around VFM. That is the challenge because it is inherently political. Asking auditors to make judgments about VFM in what is a political space is very challenging.

Q80 Kate Hollern: Very difficult. A very quick question for Henry. Who is ultimately responsible for the effective functioning of the local audit system?

Dr Midgley: One of the interesting places to go for that is the 2019 National Audit Office study on the governance of local authorities. In that, you will find an observation that it is the Department that is ultimately responsible. The Department agreed with that observation in agreeing that report. I think, in that sense, the ultimate responsibility here and the ultimate accountability belong to the Department for the overall system across the whole of England. To me, that is absolutely crucial. Lots of this stuff—and we have talked about audit firms and technology—will require more resource and it is the Department’s responsibility to make sure that local authorities have the resource to buy in the appropriate audit to be able to technologically develop their accounts.

Q81 Kate Hollern: A final question for Professor Heald. I think you have covered this but, just so we are clear, why do you think the crisis in England is different from the in the devolved regions?

Professor Heald: I tried to answer that before. It is basically the vacuum created by the abolition of the Audit Commission. England, Scotland and Northern Ireland are much smaller places so the local knowledge and informal networks survive to a much greater extent. My third point was that in England, the private audit firms seemed to be completely unnerved by the fining of Mazars. It is reputationally damaging for the firm and reputationally damaging for the local audit practice within that firm to be fined by the FRC. They are probably the three most important points.



Chair: Moving on now to procurement.

Q82 **Ian Byrne:** You have touched on this, and David has probably touched on the solution, but what are the ongoing risks in the procurement of sufficient numbers of auditors in local government?

Professor Heald: When you say “auditors”, do you mean audit firms or people within the local authorities?

Ian Byrne: The Public Accounts Committee concluded, “There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry”, and further, “The commercial attractiveness to audit firms of auditing local authorities has declined”.

Professor Heald: After 2010, local audit became unattractive to private audit firms. Before then—and I am talking about England—they were protected by the Audit Commission. If they got into a serious dispute with their local authority or they found particularly serious problems, they knew they had the Audit Commission as a backstop. That backstop has disappeared and once an auditor gets into a dispute with a client, the question arises of: who is going to pay for the extra audit costs? When auditors get worried about being fined by the FRC, they are not going to be keen.

Q83 **Ian Byrne:** How can we resolve that?

Professor Heald: The PSA did a good job in getting enough auditors for the present round. That was chaos avoided. However, it depends on those firms staying in the market over the period and there is obviously no spare capacity.

Q84 **Ian Byrne:** It is not long term, though, is it?

Professor Heald: No, it is not long term but, given that the Governments have not wanted to restore a public sector audit capacity, I think there is a strong argument now for leaving it with the private firms but making sure that it is profitable for them. In effect, the Audit Commission ran some kind of quasi-insurance policy. Audit firms knew that, if they had a particularly difficult client that was undertaking activities that were questionable or illegal, they would get the protection, so there might be a way in which the FRC or the Department could offer protection.

Q85 **Ian Byrne:** Underwrite the risk?

Professor Heald: Yes. Audit firms are becoming more worried about the risk to themselves.

Ian Byrne: Henry, would you like to add to that?

Dr Midgley: What we have described above—when we were talking about the purposes of all of this—is quite a complex constitutional,



democratic function, which is quite different from the world of the private sector auditor. Therefore, I think that making sure that there is appropriate training and thinking about how the people who are carrying this role out understand the importance of the work, and also where to put their emphasis in the accounts, is quite important.

Professor Heald: One point I picked up from reading all the evidence that was sent to the Committee was to do with issues about the dates for accounts finalisation. You have to remember that private audit firms tend to use the same staff for NHS and local authority audits. Given that, if you do not co-ordinate the setting of the deadlines for completion of those audits, what will tend to happen is that the deadlines will just be missed and we are now in a climate where everybody expects deadlines to be missed. That is part of my point about the lack of system overview and system overview also applies to the work of the private firms.

Ian Byrne: Ed Hammond?

Ed Hammond: I have nothing to add to that.

Chair: Bob Blackman will follow up on intermediaries.

Q86 **Bob Blackman:** Henry, in your written evidence you pointed to the shortage of intermediaries between auditors and citizens. Why is that important?

Dr Midgley: It comes back to something David said earlier, which is that when you are faced with a 280-page statement of accounts, it is hard for the public to understand it and for ordinary people to have the time to look at it and spend their time reading it.

If you are talking about central government in the UK, you have a lot of people processing information, digesting it and presenting it in different ways. The Institute for Government's performance tracker is a great example of that. If you go down to the local authority level, there are far fewer of those people redigesting and trying to present or represent that information in different ways. There are a couple of organisations, such as Ed's, but there aren't many and most of them are functioning at the national level, not at the individual council level.

That goes together with—if you read the Cairncross Review of 2019—the slow slip in the number of local newspapers, local journalists and people covering local councils, and adds up to the fact that these statements of accounts are documents that are being published to a world that is not translating them to the general public. I think that is a real problem.

Professor Heald: One of the big differences between the private corporate sector and the public sector is that in the private sector, for private corporates, there is a large community of financial analysts who have the incentive to study the accounts carefully. If a company does not produce its accounts on time, it is treated by the market as an adverse signal. For the reasons that have been discussed already, the number of



direct users for the public sector is low, but you have to depend on intermediaries or information brokers. The people you have to depend on to look at them are think tanks, professional institutes—in this case, accounting institutes—academics and, historically, the local media, as Henry just said. Local newspapers played a significant role in holding local authorities to account.

Q87 Bob Blackman: In my time in local government, we started off with council chambers full of people. Now, you would be lucky if you got one or two and certainly you get no local reporters at all.

Henry, coming back to you, who fills this vacuum? David has given a view about who can fill the vacuum but do you have any views about what could be done?

Professor Heald: Yes. One of the ways we could close this gap is by moving the auditing and accounting systems towards people. That is why simplified statements, digitalisation and so on are good things.

Another thing is that, whatever you do, there will be some sort of a gap. To me, suggestions such as Ed's about local public accounts committees are valuable because that would be one place where we could get a set of translators, not necessarily directly the politicians who sit on the committees but I am thinking of something like a local scrutiny unit.

Q88 Bob Blackman: When we talk about public accounts committees, I think Ed talked about on an area basis rather than necessarily on a local authority basis. Is it going to be politicians who sit on them? Experts?

Dr Midgley: I think that ultimately, for democratic accountability, it probably has to be some form of politician but I would not want to offer an opinion on the exact set-up. However, I would say that you could support that structure—as the Scrutiny Unit in the House of Commons does—with people who come and offer advice about what the accounts mean and what is going on. That is one way of helping to close the gap, but I do not have the full answer because I think it goes beyond this discussion, almost, into questions such as: what we do about things such as local journalists no longer being in the council chamber that you just raised?

Q89 Bob Blackman: Given that there is a shortage of auditors and a value issue about how much auditors are paid, having a scrutiny unit as in the House of Commons, or someone else, would surely add an extra burden. Where are those people going to come from?

Dr Midgley: This is part of the problem. This is something that I agree wholeheartedly with David on. If you are going to get this system functioning well, you are going to need some form of investment to make it work.

The issue that you raise is true, and there is another issue here in that you will need time, as well as money, for the muscle memory of what this



scrutiny looks like to grow back. Even if you create these institutions, it will not be something that appears or reappears overnight.

Q90 **Bob Blackman:** There was some discussion in the previous session about the Office for Local Government producing comparative data. I did not understand what the relationship between the Office for Local Government and the FRC was going to be, but that is a side point. It does seem to me that comparative data is what is needed. What would be useful to citizens is comparative data for broadly comparable authorities. Looking at the data from one's own local authority gives one a certain level of information, but it would be much more helpful if you could see your local authority relative to other local authorities of a similar type.

Putting such data together is time-consuming and difficult, unless you have very good access to the system, so I think that one thing that could be done—either by the FRC or the Office for Local Government—is to put together good, timely comparative information. That would be helpful to people who want to engage in local scrutiny.

Dr Midgley: I agree with that. That is one way in which local accountability should be better than national accountability because, at the nation level, it is very hard to create comparative information, having tried and failed at the NAO. However, at the local level it is much easier because you have comparable jurisdictions and responsibilities.

Ed Hammond: There needs to be a constellation of people and organisations at the local level to exercise these kinds of responsibilities. The press is part of it. Now we have local democracy reporters. There is more resilience in the local press than there was but, even so, I think we could do more to make sure that those individuals are skilled up to be able to understand and interrogate local accounts more effectively.

I touched briefly on local overview/scrutiny committees—an area close to my heart—and I think we could do more to provide support to them around understanding the finances and these kinds of issues. That is work that we are directly involved in at this very moment.

More generally on other intermediaries, we have talked about local public accounts committees. As you say, that would be across a broader area. I do think that composition-wise we would be talking about a majority of councillors or other politicians being involved because it is about democratic legitimacy.

Then you move on to talk about comparative data and the use of that data by the kinds of people that we used to call armchair auditors, who I think sprung up in a couple of places. The example that people often use is Lambeth, the People's Audit, but that felt like a one-off. You get examples popping up across the country of people doing these things but it is still sporadic and quite ad hoc in nature. A lot of the granular data that would assist people is very difficult to find or is paywalled. CIPFA has a data analytics service and produces a financial resilience index as well,



but that information is all subscription based. I know that there will also be other institutions that will prepare and use that data for their own purposes but it is not publicly available.

We know that one of Oflog's key metrics or performance indicators, areas it is looking into, is financial resilience and it is developing ideas at the moment. Oflog's Chair, a former Comptroller and Auditor General, wrote to local authority chief executives and leaders a few months ago inviting comment on the work of Oflog. I think that will resolve in the very near future into some kind of sense of how it is going to carry out the data analysis and data gathering part of its work.

I do think that it will see—alongside the work the FRC is doing—a bolstering in the central collection, collation and analysis of that data. How will that be presented to the public? I don't know and I don't know whether even the thinking has gone into the question of how that data will be presented to the public yet, because the feeling I have about those institutions and the work they are doing is that it is very much about providing the Government with assurance about its stewardship function for the sector, which has already been mentioned, rather than necessarily saying that there is a wider public communication thing to be talked about here.

It comes back again to the issue of purpose: what and who is local audit for? Thinking about centring the public in that conversation, that debate, and asking: what is it that the public want and need and do we need to think about providing support to the set-up of citizen's assemblies or citizen's juries? Things like that to create more local skill and capability around this space. Does it look like something else or is it all of these things together somehow?

Q91 Andrew Lewer: I think we have covered most of the value-for-money issues in the earlier session, so unless there is something particularly pressing that people want to say about that—Henry Midgley, it is your thing, I know—we will leave it there.

Dr Midgley: I have only one thing to say and that is around the current arrangements for value for money. It is worth thinking about exactly what assurance is being provided on value for money. It is the arrangements for value for money that the assurance is over. As it currently stands, the audit code does not invite the auditor to make a comment on value for money itself, which is an important limitation.

Professor Heald: That is a very important distinction because one of the reasons that the Audit Commission was abolished was that local authorities did not like its judgments, which they felt were imposing upon their democratic mandates.

When we had a public audit body, whose abolition was significantly due to that factor, I think it is too much to expect private audit firms to make



those kinds of judgments. I think they would be criticised as having no democratic legitimacy and would be frightened of the reputational cost.

Q92 **Andrew Lewer:** I suppose people will not like the value-for-money assessment of a park versus a library or a new primary school here versus one there, but what about a more general value-for-money assessment of massively investing in Icelandic bank accounts or retail centres that are nowhere near your local authority?

Dr Midgley: It is perfectly possible to do those value-for-money assessments. I realise there is always an issue around policy discussions but if you are looking at value for money, in central government at least, you are doing it in a context where you exclude the policy judgment of whether we should have a park versus a library. Having decided what I am going to prioritise as a politician, what you are interested in is whether I am then delivering the park or the library or whatever else I have decided to deliver, in the most economic, efficient and effective way. Even in cases where you say it is difficult, it is possible, but David's point is quite right. Of course, another thing is that if you are resourced to provide a financial audit, that is what you will provide.

Chair: Mary Robinson, do you want to follow up?

Q93 **Mary Robinson:** Yes, just on the importance of getting this audit process right.

CIPFA figures about local authority fraud say that "fraud costs the public sector at least £40.3 billion annually"—I am looking back a couple of years here—of which about £7.8 billion is specifically in local government. How much of that is down to the issue that we are talking about now, which is whether or not local authority accounts and their auditing are good enough?

Dr Midgley: I find it quite hard to conclude on that because some of that fraud could well have been caught by the financial audits and some of it may have been caught in other ways. Value-for-money reporting is looking, first, at whether people understand if their council is using the resources it was given in the most efficient, effective and economic way; secondly, whether the council itself can learn from its own failures, not necessarily the kind of failure you are talking about around the failure to stop people stealing or whatever else that fraud consists of but, also, the failure to make good decisions when they come to it. Possibly there is some area of value-for-money reporting—had one existed—that would have come with recommendations to help with that, but it is very hard to say.

Q94 **Chair:** A couple of final points. We talk about transparency. When we did an inquiry into local authority scrutiny a few years ago, one of the issues that came out was that, with the increasing amount of local authority work being done through contractors, even councillors could not get access to information about those contracts because they were commercially confidential. Is this also a challenge for audit and does it



need to be resolved?

Dr Midgley: I don't know the specific legal set-up of local authority audits so I could not say that. I do know that there are cases in the public sector where the auditor can look into the contract to see various things for the purposes of examining value for money.

Chair: If we talk about transparency, the audit process should be producing information that the public, as well as councillors, can look at.

Dr Midgley: Yes.

Professor Heald: There are two levels to this. In terms of financial audit, the auditor is not looking directly for fraud in general. Auditors are reassuring themselves that there is no fraud that would materially affect the financial statements.

On the question about access to contracts, I agree; that is a very important issue. I do not know the local government context. Certainly the National Audit Office has made sure that in certain cases, the contracts provide for the public auditor to be able to look through the contract to the contractor. I think the extent to which the public body's auditor has access to the financial systems of the private firm very much depends on how the public body sets up the contract with the private firm.

Q95 **Chair:** Isn't it important that that information should be made available to the public so that the public can see what costs are incurred by contracts and what service they are delivering?

Ed Hammond: I think that there is no question that that information should be made available to members as a matter of course. If audit committees need to go into part 2 conversations with the public excluded to have detailed conversations about pressing contract issues, that is fine, but I think there is no reason why members should not have access to that.

We do not have an accurate national picture of the whole country but things come to our attention, as you would expect. I am aware of some instances over the course of the last couple of years where there have been disagreements among members of audit and monitoring officers, section 151s, about the level and nature of the information that they are entitled to in order to carry out their work.

While the situation for scrutiny councillors is quite clear in terms of the information to which they are entitled—and that includes information that might otherwise be commercially confidential—I am not sure that clarity exists for members of audit committees. I cannot speak to whether that is 100% accurate because I do not have the Act in front of me, but I am fairly certain that that clarity is necessary there.



Councillors have common law access to information where they can demonstrate a need to know it, but that is woolly and the relevant case law is quite old now. Therefore, I think that there may well be a need for more clarity specifically over audit members' entitlements with respect to matters relating to finance. That may well be something that could be extended to all Back-Bench Members, to be honest, but particularly to audit members.

Q96 Chair: Ed Hammond made a point, but Mary Robinson also picked up on it, about the book-end proposal that you put, the legal date by when you have to have your budget set and then maybe another date later on—15 months later—when the signed-off audited accounts are made available to the public. Should that second part be put on a statutory basis as well as the budget part, so that you would have two clear dates that councillors have to work to?

Ed Hammond: You would also have to create a statutory environment for the annual governance statement if you were going to do that, because obviously that is not a document that councillors are obliged by law to produce; it is a regulatory matter.

I think, yes, but I am always cautious about suggesting to people that councils should be subject to yet more statutory obligations. However, it does feel as if it would provide a balance that is otherwise perhaps not there.

Dr Midgley: One thing might be that that is something that probably comes out of sorting out the timeliness of all this information, so probably that is something that you move towards as you get through the crisis in terms of the production of accounts and so on. Because there would be an issue with getting a statutory deadline and waking up the next year and deciding that everyone had missed it. That creates another set of problems.

Also, I want to say that I completely agreed with David's points on the materiality of fraud in terms of the financial audit: that is what that would detect.

Chair: Thank you all very much for coming to give evidence to us today. It has been very helpful. You have thrown up a lot of issues for us to consider and, hopefully, some suggestions that we might make for improvements to the system that are clearly necessary.

Professor Heald: Thank you for the invitation and best wishes for the inquiry.

Chair: Thank you very much indeed.

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Report to Audit Committee

Local Code of Corporate Governance

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Corporate Resources

Officer Contact: Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management

Report Author: Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management

Contact: mark.stenson@oldham.gov.uk

8 June 2023

Reason for Decision

The purpose of this report is to propose a refreshed Local Code of Corporate Governance for Oldham Council.

Executive Summary

The Council is required to produce a Local Code of Corporate Governance, which is subject to review every two years at a minimum or when there have been changes to Governance Standards. Oldham Council's Local Code of Corporate Governance was last reviewed and presented to the Audit Committee on 9 June 2022.

A refreshed Local Code of Corporate Governance is presented for review at Appendix 1.

Recommendations

The Committee notes the refreshed Local Code of Corporate Governance for Oldham Council.

Local Code of Corporate Governance

1.1 In order to assist with complying with the Accounts and Audit Regulations 2015 which requires the annual production of an Annual Governance Statement, the Council is required to produce a Local Code of Corporate Governance.

1.2 This Code is to be reviewed every two years at a minimum or sooner if there are changes to the Governance Standards. It was last reviewed and presented to the Audit Committee on 9 June 2022. The Code reflects the seven principles of the Governance Framework introduced in 2016/17. The changes detailed reflect the need to remove reference to the temporary revisions in the Accounts and Audit Regulations introduced during the COVID pandemic and the change in the External Audit Manager with effect from the start of the 2023/24 financial year.

1.3 The Assistant Director of Corporate Governance and Strategic Financial Management, in conjunction with the Director of Finance, review the Code on a regular basis whilst also monitoring the progress made by the Authority on complying with its policies and procedures to ensure best practice.

2 Options/Alternatives

2.1 The Audit Committee can either:

- a) Consider and accept the refreshed Local Code of Corporate Governance.
- b) Consider but not accept the refreshed Local Code of Corporate Governance and suggest an alternative approach.

3 Preferred Option

3.1 The preferred option is that the Audit Committee accepts and notes the refreshed Local Code of Corporate Governance for Oldham Council.

4 Consultation

4.1 N/A.

5 Financial Implications

5.1 N/A.

6 Legal Services Comments

6.1 N/A.

7 Cooperative Agenda

7.1 N/A.

8 Human Resources Comments

8.1 N/A.

9 **Risk Assessments**

9.1 N/A.

10 **IT Implications**

10.1 N/A.

11 **Property Implications**

11.1 N/A.

12 **Procurement Implications**

12.1 N/A.

13 **Environmental and Health & Safety Implications**

13.1 N/A.

14 **Equality, community cohesion and crime implications**

14.1 N/A.

15 **Equality Impact Assessment Completed?**

15.1 N/A.

16 **Key Decision**

16.1 N/A.

17 **Forward Plan Reference**

17.1 N/A.

18 **Background Papers**

18.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are included at Appendix 1
Officer Name: Mark Stenson
Contact: mark.stenson@ldham.gov.uk

19 **Appendices**

19.1 Appendix 1 Local Code of Corporate Governance.

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| LOCAL CODE OF CORPORATE GOVERNANCE |
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1.0 INTRODUCTION

1.1 The term Corporate Governance refers to the *system “by which the Council directs and controls its functions and relates to the community it serves”*. It is therefore the framework of policies, systems, procedures, and structures that together determine and control the way in which the Council manages its business, determines its strategies and objectives, and sets about delivering its services to meet those objectives for the greater good of the community.

1.2 The basic principles of good corporate governance, as set out in the Corporate Governance Code, require the Council to:

- carry out its functions in a way that is completely open and inclusive of all sectors of the community;
- demonstrate the utmost integrity in all its dealings,
- be fully accountable to the public it serves; and
- ensure its emergency decision-making throughout any emergency event is consistent with good governance of public funds.

The Council supports these principles fully. This Code is a public statement of the commitment to these principles and sets out clearly the way in which the Council will meet that commitment.

1.3 In order to follow Best Practice in Corporate Governance, the methodology adopted by the Authority has been to base the approach on the following:

- Complying with the guidance published in the Good Governance Standards for Public Services, which sets out the key principles which need to be adopted by the Council.
- Following advice on Delivering Good Governance in Local Government as developed by the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives (CIPFA/SOLACE) to integrate the principles of the Good Governance Standard into the public sector.
- Implementing a suite of Counter Fraud Policies that reflect the Council's zero tolerance to fraud. This includes the production of a Fraud and Loss Risk Assessment to inform future pro-active work to prevent future loss.
- Setting up and maintaining appropriate networks within the Council to consider key matters on Corporate Governance. These networks include key officers from Legal, Policy, Procurement and Performance, Service Directorates and Human Resources and Organisational Development as well as Finance.
- Ensuring appropriate attendance at meetings and working groups set up in response to emergencies by Regulatory Officers to ensure transparent decision making.

1.4 The main body of this Code is therefore structured around the seven key principles of the revised CIPFA/SOLACE publication Delivering Good Governance in Local Government and is designed to reflect the assurance gathering process for the Annual Governance Statement which is produced to support the Statement of Accounts. Each commitment covers a particular area of the Council's responsibilities in terms of corporate governance. These principles are:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcome.
- Developing the entity's capacity including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The means by which the Council will meet and demonstrate its commitment to good corporate governance in relation to these principles are set out in **Section 2** below.

1.5 In order to assist with complying with the Accounts and Audit Regulations 2015, which require the production of an Annual Governance Statement, this Code will be reviewed as a minimum every two years or when there are changes to the Governance Standards. Also, the Assistant Director of Corporate Governance and Strategic Financial Management in conjunction with the Director of Finance will take an overview of the Code on a regular basis and monitor the progress made by the Authority on compliance by reviewing that the policies, procedures and working practices reflect best practice.

1.6 Further information about the Authority's corporate governance processes, are available from the Assistant Director of Corporate Governance and Strategic Financial Management by email at mark.stenson@oldham.gov.uk

2.0 THE SEVEN KEY PRINCIPLES

2.1 **Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**

Both Officers and Members are public servants and operate a culture where acting in the public interest is a primary objective. To do this, the Council sets out clear statements about the roles and responsibilities of Members and senior officers. These clear statements are supported by appropriate policies and protocols which are updated on a regular basis.

The Chief Executive supported by Senior Officers is responsible for all aspects of operational management and demonstrates sound corporate governance by ensuring:

- A constitution is maintained and updated which includes Contract and Financial Procedure Rules which set out the Council's commitment to sustainability and social value. This sets the standards expected of third party suppliers to the Council.
- An appropriate Scheme of Delegation is maintained that sets out the roles of all Cabinet Members and Officers.
- Records are maintained of decisions taken which are supported by evidence to justify the decisions made.
- Officers at a senior level are given the appropriate statutory responsibilities for finance (Section 151 role), education, children's services, adults social care, public health and monitoring officer responsibilities (legal).

- An appropriate suite of anti-fraud and corruption policies including whistleblowing are in place. This supports human resource policies to ensure inappropriate behaviour is subject to review.
- A Standards Committee is established to consider matters of compliance with the Members Code of Conduct.
- As a Co-Operative Council, every effort is made to assist Oldham residents to be more self-sufficient as this results in a more sustainable Local Authority. The key objectives are set out in the Corporate Plan.
- A regular review of key partnerships is reported to Senior Officers to ensure the Council's values are upheld in their operations.
- A complaints system is in place which enables matters to be raised by the public on both organisational and operational matters.
- A reserves policy is prepared and regularly reviewed to support the Council's Co-operative values and continued financial resilience.

The Audit Committee is an essential part of the Authority in providing scrutiny of financial affairs.

2.2 Ensuring openness and comprehensive stakeholder engagement

In order to discharge their duties, it is important that both Members and officers are open about both remuneration and how the Council spends its resources. The Council publishes its key decisions in line with the Constitution. To demonstrate transparency, it publishes all transactions with expenditure of £500 and over, including those where it acts for Government Departments as an Agent as per the Local Government Transparency Code, and its Pay Policy Statement. Key meetings such as Council are streamed live to enable local citizens to review decisions as and when they are made.

One way that the Council demonstrates it is working coherently is by operating management arrangements that show it is improving the services it delivers and achieving best value. Independent Scrutiny will be undertaken in 2023/214 by four Scrutiny Boards and key Regulatory Committees. These are the:

- Adult Social Care Board
- Children and Young People and Families Board
- Place, Economic Growth and Environment Board
- Governance Strategy and Resources Board

These will operate alongside the Audit and Standards Committees.

Both Internal and External Audit officers have informal access to the members of the Audit Committee before each meeting. The Standards Committee is supported by independent members who review the investigations into matters of conduct. Where appropriate, investigations are reported in detail to full Council.

An effective Local Code of Corporate Governance has been produced to support the organisation's vision of what it wants to achieve. It is an integral part of the Council demonstrating to its key stakeholders in its agreed Corporate Plan that its underlying policies and procedures are sound. It is supported by a communications strategy to ensure residents views are reflected.

Some services are delivered by working in partnership with a number of third parties. Both Members and officers work in several diverse partnership arrangements. It is important that they are aware they represent the Council, and that each partnership has in place appropriate Corporate Governance arrangements which work and fit in

with the Corporate Vision of the organisation and satisfy the requirements of the Council. The Council has developed a Partnership Dashboard which will be reported to the Audit Committee during 2023/24 to assess its overall risk profile from existing partnerships.

There is extensive consultation on key policies and developments to ensure the aims of the Council support their environmental priorities within a defined financial envelope. Key policies such as the Co-operative vision are only developed following consultation with both the public and key public bodies such as the levying bodies.

The Council is a key Member of the Greater Manchester Combined Authority (GMCA) and has worked in partnership with the other Greater Manchester District Councils to attract extra investment which benefits the wider area than just that covered by the Council. In terms of the Greater Manchester Pension Fund (GMPF) which administers the Oldham Council Local Government Pension Scheme, it has worked in partnership to deliver long term savings by better targeted investment.

The budget process balances the operational needs of the Council, given the pressures on certain operational areas, with consideration of affordability for local Council Taxpayers. The Council has continued its plans to integrate with NHS services to improve the efficiency of public services. The continued partnership working on adult social care services and the revised devolution arrangements following the national restructure of the National Health Service during 2022/23 and pooled/ aligned funding further reinforces the extent of joint working taking place. This future vision is set out in the Medium-Term Financial Strategy (MTFS) which is subject to regular review.

2.3 Defining outcomes in terms of sustainable economic, social and environmental benefits

The Council's Corporate Plan supplemented by the development of the Oldham Plan – Our Future Oldham, sets out how the Council will deliver its agreed Co-Operative values. It presents the long-term sustainable vision where residents do as much as possible to assist themselves with the Council acting as a provider of last resort. It determines how the Council operates in partnership with its citizens, Elected Members, other public bodies (on integrating services to minimise waste) and key partners such as the constituent Districts who have a joint interest in the GMCA.

In order to deliver its core business, the Council has both a Corporate Governance Framework and a Risk Management Framework which is subject to independent scrutiny by both Senior Officers and the Audit Committee. This is demonstrated by key decisions including details of mitigations for risks. The effective use of resources is reflected in the agreed budget and Medium-Term Financial Strategy which takes account of the views of the budget consultation. Approved budget expenditure is incurred in accordance with the constitution which sets out the priorities of the Authority in relation to Co-Operative Values which in turn reflect the importance of both Social Value and Sustainability.

In order to improve future outcomes for service users there is partnership working at both the locality level (health and social care) and GMCA (children and regeneration). This has involved the Council considering the risk it is prepared to underwrite to guarantee future investment both locally and at the conurbation level. Fair access to service is underpinned by the production of equality impact assessments which form key elements of the decision-making process when the Council is considering budget options.

2.4 **Determining the interventions necessary to optimise the achievement of the intended outcome**

To ensure that Council decisions are subject to appropriate review the following has been developed:

- A Cabinet Structure with appropriate amendments made to responsibility on an annual basis, with monthly meetings reflecting the need to take proper political and operational decisions. This is supported by appropriate officer support and training.
- The two regularity Committees (Audit and Standards) which follow best practice guidance and are constituted to have a proportion of Independent Members who are non-political and are recruited on their skills which enable them to carry out the role.
- An agreed format for the delivery of budget reductions which is linked into both the Medium-Term Financial Strategy and the detailed budget setting process. This involves considering the feedback from the public and staff consultation which can involve amending initial proposals.
- A performance monitoring system which tracks progress against the Council's objectives. This includes the production of business plans at Directorate level with appropriate Service Risk Registers and independent scrutiny where objectives are not met.
- A costed Corporate Plan setting out the Co-Operative objectives of the Council.
- Appropriate partnership governance monitoring as evidenced by the Partnership Dashboard reported to the Audit Committee.
- Appropriate and realistic social value in commissioning including ensuring where possible outside bodies make fair payments to staff.
- Flexible working arrangements to enable the Council to respond to unplanned events as evidenced throughout the recent pandemic and support its future operation of Co-operative and Social Values.

2.5 **Developing the entity's capacity including the capability of its leadership and the individuals within it**

All new Members and officers have a specific induction programme which is kept under regular review and tailored when required. For Members, the Council has enhanced an existing development programme, which provides regular updates on new issues. This programme supports Councillors in a modern environment in whatever role they have in the Council. In respect of the specialist regulatory committees of both Audit and Standards, specialist training for members is arranged by the Authority. The structure of responsibility at officer and Member level is set out in the scheme of delegation within the Constitution.

All staff are subject to an annual appraisal (a Let's Talk conversation) which allows both staff and their managers to identify staff needs and produce annual training plans. This has been supported by the Team Oldham Workforce Strategy 2020-2023. The embedding of the integrated HR/Payroll system is ensuring key personnel information is better recorded and processes for both managers and staff have been improved.,

All posts within the Council have job descriptions supported by person specifications which enable staff to carry out their roles. These are consistent with the principles set out by the National Joint Council.

The Council's Workforce Strategy 2020-2023 and Corporate Plan are reviewed on a regular basis. To ensure the corporate aims and objectives are achieved, it is supported by a Performance Monitoring System which includes a training needs

assessment, and which reports on a quarterly basis. The Council is undertaking a capacity building programme recognising the risks of downsizing which are resulting from continued budget pressures.

The Audit Committee is essential for independent scrutiny, reviewing reports from both internal and external auditors. This includes the overall opinion of the internal control environment from internal audit and the audit findings report from the external auditor.

To maintain the health and wellbeing of employees there is a Health and Safety Working Group. In order for concerns to be raised both internally and externally there are policies covering grievance and whistleblowing. In the financial year 2022/23 support continued to be provided to the workforce to reflect the challenges presented by ongoing increased levels of home working. This will be continued in 2023/24.

Partnerships and their effectiveness are reviewed by the Audit Committee via the Partnership Dashboard with more detailed scrutiny as and when needed. This has included learning the lessons from governance failings reported in the public domain in other Public Sector organisations.

2.6 Managing risks and performance through robust internal control and strong public management

The Council has an embedded Risk Management Strategy and Framework which is subject to regular review by both Senior Officers and detailed scrutiny from the Audit Committee.

The reports submitted to the Audit Committee as routine business show publicly how the Authority demonstrates it has a robust system of internal control.

The Performance Framework includes regular reports on progress to achieving the Corporate Objectives of the Council. Data is collated monthly and reported on a quarterly basis to both the Cabinet and Scrutiny Committee. Where performance is below the agreed standard then presentations supported by reports are made to the Scrutiny Committee setting out the plans to achieve the agreed standard.

The budget is subject to regular review by the Cabinet Member responsible for Finance supported by the Director of Finance. It is supported by a costed Medium-Term Financial Strategy, a detailed Capital Programme and Strategy, and Treasury Management Strategy setting out the financing requirements of the Council. A statement on the robustness of the budget is prepared by the Director of Finance (Section 151 Officer) and this is supported by a reserves policy which underpins the Long-Term resilience of the Council.

Data security standards are supported by appropriate Information Security protocols and an officer group which meets quarterly to consider data matters. Data security is subject to external scrutiny around the need to comply with national standards such as those required on the Public Services Network (PSN).

2.7 Implementing good practices in transparency, reporting and audit to deliver effective accountability

All meetings of the Council, and Cabinet and also the Planning, Audit and Licensing Committees are held in public and the only matters considered in private are those matters, which, after advice with key personnel such as the Monitoring Officer, are deemed to be confidential with regard to relevant legislation.

The work on public stewardship culminates in the production of the Annual Report of the Head of Audit and Counter Fraud on the overall internal control environment. The Internal Audit Service works to the Public Sector Internal Audit Standards and a review undertaken at the end of 2022/23 identified the continued compliance with these Standards. The financial year 2022/23 was again challenging as the Council returned to operating its normal business after the pandemic. However, the Internal Audit Service has continued to support the Section 151 Officer in assessing the adequacy of the controls surrounding all of the Council's Fundamental Financial Systems.

The Statement of Final Accounts is produced in accordance with appropriate professional standards which includes the relevant performance information and feedback from other independent assessments. It is expected that the Accounts will be audited by the end of September which is consistent with the Accounts and Audit (Amendment) Regulations 2022 and in line with the present statutory framework. A draft set of accounts is presented to the Audit Committee in June to enable additional scrutiny to take place of this important document.

3.0 KEY ACTIONS WHICH SUPPORT GOOD CORPORATE GOVERNANCE

3.1 Production of an Annual Governance Statement

The Council, to support its requirements under Good Governance, will produce an Annual Governance Statement. This Statement will follow best practice guidance and progress on monitoring action against any issues identified in the Statement will be the responsibility of the Assistant Director of Corporate Governance and Strategic Financial Management at officer level. It will also be subject to independent review by the Audit Committee at Member level when the Final Accounts are considered. This Statement will be subject to review by the External Auditor as part of the routine external audit undertaken on the accounts.

3.2 Reports to Members

The Council's Audit Committee, which is independent of the Authority, receives regular reports on the Annual Governance Statement including potential emerging issues. A separate report will be produced on the Statement itself at the year-end. In addition, regular reports on partnerships are produced for the Audit Committee on the Partnership Dashboard.

3.3 Reducing Fraud

The Council, to minimise its risk of suffering losses due to fraud, has adopted best practice as set out in recent standards produced on fraud and as a result has in place:

- a strategic approach as set out in its Counter Fraud Strategy (which was updated in March 2023) to reduce the risk of fraud.
- a culture of zero tolerance to fraud.
- an effective Counter Fraud Framework including Whistleblowing arrangements for staff, contractors and members of the public.
- a dedicated team to investigate allegations of fraud.
- continued improvement to systems of Internal Control.
- effective partnership working arrangements with third parties.

This is monitored by an effective framework to reduce fraud. The Audit Committee will consider informal updates on the measures the Council is adopting to reduce its risk to fraud and loss.

4.0 FURTHER INFORMATION

4.1 If you have any concerns about the way in which the Authority, its Members, officers or agents conduct its business, or believe that elements of this Code are not being complied with, please contact one of the following as appropriate. Your enquiry will be treated confidentially, and a response made following investigation of the facts in each case.

(i) **Chief Executive (Head of Paid Service)**

Harry Catherall
Chief Executive
Oldham Metropolitan Borough Council
PO Box 160
Civic Centre
West Street
Oldham
OL1 1UG

(ii) **Director of Finance (Section 151 Officer)**

Anne Ryans
Director of Finance (S151 Officer)
Oldham Metropolitan Borough Council
Level 3
Civic Centre
West Street
Oldham
OL1 1UL

(iii) **Monitoring Officer**

Paul Entwistle
Director of Legal Services /Monitoring Officer
Oldham Metropolitan Borough Council
PO Box 33
Civic Centre
West Street
Oldham
OL1 1UL

(iv) **Assistant Director of Corporate Governance and Strategic Financial Management**

Mark Stenson
Assistant Director of Corporate Governance and Strategic Financial Management
Oldham Metropolitan Borough Council
Level 3
Civic Centre
West Street
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OL1 1UH

Email: mark.stenson@oldham.gov.uk

(v) **External Auditor**

Daniel Watson
Mazars LLP
One St Peters Square
Manchester
M2 3DE

Revised June 2023

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Report to Audit Committee

2022/23 Internal Audit and Counter Fraud Progress Report

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

Officer Contact: John Miller – Head of Audit & Counter Fraud

Report Author: John Miller – Head of Audit & Counter Fraud

8 June 2023

Reason for Decision

To provide Members with a report outlining the work of the Internal Audit and Counter Fraud team for the 2022/23 financial year.

Executive Summary

The report summarises the work carried out by the team from 1 April 2022 to 31 March 2023.

During the year the team prioritised the Council's Fundamental Financial Systems (FFS) reviews to support both the 2021/22 and 2022/23 assurance process to the support the production of the financial accounts, assurance to be provided by the Chair of the Audit Committee and Director of Finance, plus the Annual Opinion set out in the Report of the Head of Audit and Counter Fraud.

In addition, other Audit and Counter Fraud Team activity included:

- Continued support in respect of COVID-19 grant funding regimes, including responding to Central Government requests for supporting information and Assurance Statements in respect of grants received;
- Continued support in providing assurance in respect of other non-COVID Central Government Grant regimes;
- Compilation of the 2021/22 Annual Audit Report and Opinion and reports detailing key issues for this Committee;

- Completion of a variety of other planned Audit reviews and reports on Local Authority Maintained Schools, Miocare CIC's Fundamental Financial Systems, Alexandra Park Eco-Centre, the Council's Let Estate Function and Home to School Transport;
- Issuing briefing notes and reports on Postal Voting during the election in May 2022 and the Hollinwood by-election;
- Issuing briefing notes on ad hoc reviews of Foster Care Aids & Adaptations, Payroll Leavers procedures, Tax Compliance and Controls, Children's Social Services Cash Imprest Accounts, Duplicate Payments and Children's Services Recruitment;
- Commencement of audit reviews of Semi-Independence Units, Housing Strategy implementation, Out of Borough Education and Land Sales, and in connection with the pre-contract phases of the North Chadderton High School Extension, the Spindles redevelopment, Diggle Clock Tower, The Old Library and Egyptian Room projects;
- Corporate Counter Fraud activities have identified £312,061 of fraud errors and overpayments. The Direct Payments Audit Team (Children and Adults) have continued to deliver significant recovery outcomes which have generated £188,976 and £2,865,466 (respectively) for the period 1 April 2022 to 31 March 2023; and
- Having an independent inspection undertaken for Public Sector Internal Audit Standards.

Recommendation

Members are requested to note the 2022/23 Audit and Counter Fraud Progress Report.

2022/23 Internal Audit and Counter Fraud Progress Report**1. Background**

- 1.1 This report summarises the work of the Audit and Counter Fraud Team between 1 April 2022 and 31 March 2023.
- 1.2 The main content of the report is structured as follows:
- Section 2: 2022/23 Audit and Counter Fraud Plan: Progress Update;
 - Section 3: Corporate Counter Fraud; and
 - Section 4: Audit of Direct Payments.

2. 2022/23 Audit and Counter Fraud Plan: Progress Update

- 2.1 Priorities for the 2022/23 Audit and Counter Fraud Plan included:
- Fundamental Financial Systems (FFS) reviews to provide assurance in support of the Authority's annual financial statements;
 - Audits which are classed as "high priority" in the Annual Audit Needs Assessment;
 - Counter Fraud work to identify fraud risks within the corporate systems;
 - Specific fraud investigations on Council Tax Reduction and Corporate Fraud;
 - Delivery of the financial audits of Direct Payments in line with service plans and targets;
 - Support and provide assurance in connection with postal votes for local, regional, and parliamentary elections.

Progress against these priorities is summarised below:

Completion of 2021/22 Fundamental Financial Systems (FFS) reports

- 2.2 Work commenced on the reviews agreed in the Internal Audit Plan for the previous financial year 2021/22, in October 2021. Interim FFS reports were issued by the 31 March 2022 resulting in final reports been issued during Quarters 1 and 2 of 2022/23. Members received reports on the findings and opinions of the 2021/22 FFS reports throughout 2021/22, and as part of the Audit and Counter Fraud Team's reporting throughout the Municipal Year 2022/23. There are no further significant updates to report upon at this time in respect of our FFS work for the previous financial year 2021/22. Further details of the audits, including the opinions, can be found at Appendix 1.

2022/23 Fundamental Financial Systems (FFS) reports

- 2.3 Work in connection with the 2022/23 FFS reviews commenced in October 2022. This reflected the revised approach agreed within the 2022/23 Plan whereby one audit report per annum would be issued. Interim Action Plans were issued to Services in the final quarter of the year detailing the results of our testing and recommendations for improvement. At the time of writing final reports are being compiled and will be issued as normal in Quarters 1 and 2 of the new 2023/24 financial year. This work has informed the production of the 2022/23 draft Annual Governance Statement.

Other Planned Reports Issued

- 2.4 In addition to the FFS related reports the team has also issued:
- School Audit Reports to the Local Authority Maintained Schools of St Joseph's Primary School and Glodwick Infant and Nursery School;

- A briefing note and report on Postal Voting during the election in May 2022 and a further report on this topic for the Hollinwood by-election;
- The annual report on MioCare CIC's Fundamental Financial Systems;
- A review of the Council's Let Estate function;
- A review of the Council's arrangements to provide Home to School Transport; and
- A report on the pre and current contract phases of the Alexandra Park Eco Centre.

2.5 A number of other ad-hoc pieces of work have also been undertaken in response to issues identified during the year, and at the request of the Director of Finance and/or Assistant Director of Finance (Corporate Governance and Strategic Financial Management). As a result of this work, we have issued Audit Briefing Notes with recommendations for improvement in the following areas:

- Foster Care Aids & Adaptations;
- Payroll leavers;
- Tax compliance and Controls;
- Children's Social Care Recruitment – Agency Staff Invoicing;
- Social Care Cash Imprest Accounts; and
- Duplicate Payments.

Grant Assurance Reviews

2.6 Further work was also undertaken in connection with grant funding schemes in response to the COVID-19 pandemic, primarily responding to Central Government requests for supporting information and/or assurance statements to ensure grant funding has been utilised as intended. Requests for this type of work have been both frequent and received at relatively short notice.

2.7 The team completed 19 separate pieces of grant assurance work during 2022/23 in connection with both COVID-19 related and non COVID-19 related grants, with an expectation that further requests for this type of assurance work will continue. Each piece of assurance work requires verification of significant expenditure and, as such, each represents a small, targeted audit in itself.

Other Work Undertaken

2.8 In addition to our annual FFS work on Adult Social Services in connection with Direct Payments and Residential Care the Team continues to contribute to Adult Social Care Service working groups to address the concerns raised in the FFS audit reports in these areas. As a result of these discussions, the Team now assist the Service by the Direct Payment (DP) Auditors invoicing for DP overpayments as soon as the DP audit is concluded. We commenced this invoicing in January 2023. This change had an immediate impact on the time taken to raise an invoice which fell from approximately 65 days to approximately 1.5 days, with consequent increases in the levels of recovery and reduction in outstanding unused DP balances in client accounts. Average days to recover unspent funds is now 5 days following the raising of the invoice.

2.9 Other work underway at 31 March 2023 included reviews of:

- Housing Strategy implementation;
- Land Sales Programme;
- North Chadderton High School Extension pre-contract procurement review;
- Semi Independence Units (follow-up review);
- Out of Borough Education;
- Spindles pre-contract procurement review;
- Diggle Clock Tower pre-contract procurement review;
- Old Museum / Library pre-contract procurement review; and
- Egyptian Room pre-contract procurement review.

As at the date of this report, the North Chadderton High School Extension Draft Report has been issued. The majority of the remainder of these reviews are expected to reach draft report stage by the end of June 2023. The findings from these reviews will be reported to Members in due course.

- 2.10 The team has also supported both the Director of Finance and other colleagues within the Finance Service, and in other service areas, with ad hoc requests for support and assistance throughout the period.

3. Corporate Counter Fraud

- 3.1 The Corporate Counter Fraud Team continues to perform well. Appendix 2 sets out the key outcomes from the work conducted.

- 3.2 Highlights include the identification of:

- 114 cases of non-CTR fraud/misuse of funds including Business Support Grants, Council Tax Single Person Discount fraud (SPD), Blue Badge misuse and Direct Payment misuse;
- £153,096 of non-CTR fraud/misuse;
- 62 cases of ineligible claims for Council Tax Reduction (CTR);
- £95,016 of Housing Benefit ineligibility and overpayments (identified as part of the CTR investigations); and
- £63,948 of ineligible claims for Council Tax Reduction (CTR).

- 3.3 In addition to the above the Counter Fraud Team has supported as required with internal staff investigations during the year.

- 3.4 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will continue to:

- Collaborate with the Internal Audit Team; and
- Ensure the delivery of the Internal Audit and Counter Fraud Plan 2022/23.

4. Audit of Direct Payments

- 4.1 The Direct Payments Audit team has a dual role, as a compensating control, of:

- Ensuring client spending is in line with their agreed Support Plan; and
- Identifying overpayments made / or client contributions outstanding for recovery.

- 4.2 Appendix 3 shows the monthly Direct Payments Audit volumes and financial outcomes arising for both Adults and Children's Services, which are £2,865,466 and £188,976 (respectively). In total the team carried out 1,483 Adults and Children's Direct Payment Audits.

5 Options/Alternatives

- 5.1 The Audit Committee can either:

- a) choose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team; or,
- b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach.

6 Preferred Option

- 6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

- 7 **Consultation**
- 7.1 N/A.
- 8 **Financial Implications**
- 8.1 N/A.
- 9 **Legal Services Comments**
- 9.1 N/A.
- 10 **Co-operative Agenda**
- 10.1 N/A.
- 11 **Human Resources Comments**
- 11.1 N/A.
- 12 **Risk Assessments**
- 12.1 The 2022/23 Audit and Counter Fraud Plan was prepared, reviewed, and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (John Miller)
- 13 **IT Implications**
- 13.1 N/A.
- 14 **Property Implications**
- 14.1 N/A.
- 15 **Procurement Implications**
- 15.1 N/A.
- 16 **Environmental and Health & Safety Implications**
- 16.1 N/A.
- 17 **Equity, Community Cohesion and Crime Implication**
- 17.1 N/A.
- 18 **Equality Impact Assessment Completed**
- 18.1 No.
- 19 **Forward Plan Reference**
- 19.1 N/A.

20 **Key Decision**

20.1 No.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act

File Ref: Background papers are included as Appendices 1, 2 & 3
Officer Name: John Miller
Contact: john.miller@oldham.gov.uk

22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Audit Reports/Outcomes – 1 April 2022 to 31 March 2023
- **Appendix 2:** Counter Fraud Results – 1 April 2022 to 31 March 2023
- **Appendix 3:** Direct Payments Results – 1 April 2022 to 31 March 2023

Audit and Counter Fraud 2022/23 - Summary of Audit Reports/Outcomes - 1 April 2022 to 31 March 2023

| Report Ref | Directorate | Audit Review/Counter Fraud Report | Report/Briefing Note | Quarter | Opinion |
|------------|-----------------|---|----------------------|---------|------------|
| 1 | Chief Executive | 2021/22 Final Report – Council Tax | Report | Q1 | Inadequate |
| 2 | Chief Executive | 2021/22 Final Report – Business Rates (NDR) | Report | Q1 | Adequate |
| 3 | Chief Executive | 2021/22 Final Report – Treasury Management | Report | Q1 | Good |
| 4 | Chief Executive | 2021/22 Final Report – Bank Reconciliations | Report | Q1 | Good |
| 5 | Chief Executive | 2021/22 Final Report – Payroll | Report | Q1 | Adequate |
| 6 | Chief Executive | 2021/22 Final Report – Housing Benefit | Report | Q1 | Adequate |
| 7 | Chief Executive | 2021/22 Final Report – Council Tax Reduction | Report | Q1 | Adequate |
| 8 | Chief Executive | 2021/22 Final Report – Accounts Payable | Report | Q1 | Adequate |
| 9 | Chief Executive | 2021/22 Final Report – Accounts Receivable | Report | Q1 | Adequate |
| 10 | Chief Executive | 2021/22 Final Report – Direct Payments | Report | Q1 | Inadequate |
| 11 | Chief Executive | 2021/22 Final Report – Residential Care | Report | Q1 | Inadequate |
| 12 | Chief Executive | 2021/22 Final Report – Fixed Assets | Report | Q1 | Adequate |
| 13 | Chief Executive | Prevention and Promotion for Better Mental Health | Grant Assurance | Q1 | Assurance |
| 14 | Chief Executive | Universal Drug Treatment Grant | Grant Assurance | Q1 | Assurance |
| 15 | Chief Executive | Public Sector Decarbonisation Grant (AGMA) – Low Voltage Lighting | Grant Assurance | Q1 | Assurance |
| 16 | Chief Executive | Public Sector Decarbonisation Grant (OMBC) – Alexandra Park | Grant Assurance | Q1 | Assurance |
| 17 | Chief Executive | RED WoLF - Rethink Electricity Distribution Without Load Following | Grant Assurance | Q1 | Assurance |
| 18 | Chief Executive | Omicron Hospitality and Leisure Grant Pre & Post Payment Assurance (PPAS) | Grant Assurance | Q1 | Assurance |
| 19 | Chief Executive | Additional Restrictions Grant Pre & Post Payment Assurance (PPAS) | Grant Assurance | Q1 | Assurance |
| 20 | Chief Executive | COVID-19 Business Grants Fraud and Error Assurance | Grant Assurance | Q1 | Assurance |
| 21 | Chief Executive | Local/Mayoral Election - Post Votes Review | Report | Q1 | Advisory |

| Report Ref | Directorate | Audit Review/Counter Fraud Report | Report/Briefing Note | Quarter | Opinion |
|------------|-------------------------|--|----------------------|---------|------------|
| 22 | Chief Executive | Local Elections Postal Vote Checks | Briefing note | Q1 | Advisory |
| 23 | Place & Economic Growth | 2021/22 Draft Final Report – Cash Income (Building Control) | Report | Q2 | Adequate |
| 24 | Place & Economic Growth | 2021/22 Draft Final Report – Cash Income (Fleet Management) | Report | Q2 | Adequate |
| 25 | Children & Young People | St Joseph's Primary | Report | Q2 | Inadequate |
| 26 | Chief Executive | Contain Outbreak Management Fund | Grant Assurance | Q2 | Assurance |
| 27 | Chief Executive | Test and Trace Support Payments | Grant Assurance | Q2 | Assurance |
| 28 | Children & Young People | Glodwick Infant and Nursery School | Report | Q2 | Adequate |
| 29 | Chief Executive | Local Restrictions Support Grant (Closed) Addendum 5 Pre & Post Payment Assurance (PPAS) | Grant Assurance | Q3 | Assurance |
| 30 | Children & Young People | Foster Care Aids & Adaptations | Briefing note | Q3 | Advisory |
| 31 | Chief Executive | Payroll Leavers Query | Briefing note | Q3 | Advisory |
| 32 | Chief Executive | IR35 Procedures and Controls | Briefing note | Q3 | Advisory |
| 33 | Miocare CIC | Fundamental Financial Systems Review | Report | Q3 | Assurance |
| 34 | Chief Executive | Local Transport Capital Block Funding Grant (Pothole Fund) 31/5506 | Grant Assurance | Q3 | Assurance |
| 35 | Chief Executive | RED WoLF - Rethink Electricity Distribution Without Load Following | Grant Assurance | Q3 | Assurance |
| 36 | Chief Executive | Reduces – Developing sustainable business models / structures. | Grant Assurance | Q3 | Assurance |
| 37 | Chief Executive | Foundations - Building regional resilience to industrial structural change. | Grant Assurance | Q3 | Assurance |
| 38 | Chief Executive | Coalesce - Community Owned and Led Energy for Security Climate Change and Energy | Grant Assurance | Q3 | Assurance |
| 39 | Chief Executive | Restart Grant Pre & Post Payment Assurance (PPAS) | Grant Assurance | Q3 | Assurance |
| 40 | Chief Executive | Postal Vote Integrity Review - Hollinwood By-Election | Report | Q3 | Advisory |
| 41 | Adult Social Care | 2022/23 Draft Action Plan – Direct Payments | Action Plan | Q4 | Advisory |

| Report Ref | Directorate | Audit Review/Counter Fraud Report | Report/Briefing Note | Quarter | Opinion |
|------------|---------------------------|---|----------------------|---------|------------|
| 42 | Adult Social Care | 2022/23 Draft Action Plan – Residential Care | Action Plan | Q4 | Advisory |
| 43 | Children & Young People | Children's Social Care Recruitment – Agency Staff Invoicing | Briefing note | Q4 | Advisory |
| 44 | Public Health | Adult Weight Management Grant | Grant Assurance | Q4 | Assurance |
| 45 | Children & Young People | Social Care Cash Imprest Accounts | Briefing note | Q4 | Advisory |
| 46 | Chief Executive | Duplicate Payments | Briefing note | Q4 | Advisory |
| 47 | Place and Economic Growth | Let Estate | Report | Q4 | Inadequate |
| 48 | Chief Executive | 2022/23 Draft Action Plan – Accounts Payable | Action Plan | Q4 | Advisory |
| 49 | Place and Economic Growth | Alexandra Park Eco Centre | Report | Q4 | Adequate |
| 50 | Chief Executive | 2022/23 Draft Action Plan – Council Tax Reduction Scheme | Action Plan | Q4 | Advisory |
| 51 | Chief Executive | 2022/23 Draft Action Plan – Housing Benefit | Action Plan | Q4 | Advisory |
| 52 | Chief Executive | 2022/23 Draft Action Plan – Payroll | Action Plan | Q4 | Advisory |
| 53 | Chief Executive | 2022/23 Draft Action Plan – Treasury Management | Action Plan | Q4 | Advisory |
| 54 | Chief Executive | 2022/23 Draft Action Plan – Fixed Assets | Action Plan | Q4 | Advisory |
| 55 | Chief Executive | 2022/23 Draft Action Plan – Bank Reconciliations | Action Plan | Q4 | Advisory |
| 56 | Children & Young People | Home to School Transport | Report | Q4 | Inadequate |
| 57 | Chief Executive | 2022/23 Draft Action Plan – Business Rates | Action Plan | Q4 | Advisory |
| 58 | Chief Executive | 2022/23 Draft Action Plan – Council Tax | Action Plan | Q4 | Advisory |
| 59 | Chief Executive | 2022/23 Draft Action Plan – Accounts Receivable | Action Plan | Q4 | Advisory |
| 60 | Children & Young People | Supporting Families Assurance Statement | Grant Assurance | Q4 | Assurance |

Key:

| Opinion | Description |
|------------------|---|
| Advisory | The work in this area is either not audit work in nature, such as provision of advice and consultancy, and/or is undertaken on behalf of third parties. |
| Assurance | The work in this area has been undertaken in order to provide assurance that, e.g. funding has been spent as intended and/or procedures and controls have operated effectively |
| Poor | Action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and/or control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |
| Inadequate | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and/or control to effectively manage risks to the achievement of objectives in the area audited. |
| Adequate | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance and/or scope for improvement were identified which could put at risk the achievement of objectives in the area audited. |
| Good | A sound system of governance, risk management and/or control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Opinion withheld | Opinion has been withheld at interim stage pending further fieldwork required at final report stage in order to arrive at an opinion on the systems and controls in place. |
| TBC | Opinion awaiting confirmation following further discussion with management. |

Audit and Counter Fraud 2022/23

Counter Fraud Results 1 April 2022 to 31 March 2023

| Counter Fraud Team Performance Monitoring 2022/23 | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 4 | Total |
|---|--------------------|-------------------|-------------------|-------------------|--------------------|
| Corporate Cases - Positive Results | 58 | 10 | 18 | 28 | 114 |
| Fraud and Error Overpayments identified as part of Corporate Cases (£) | £70,487.46 | £53,591.92 | £15,380.40 | £13,636.34 | £153,096.12 |
| CTR cases amended as a result of an investigation | 12 | 8 | 10 | 32 | 62 |
| HB Fraud and Error Overpayments identified as part of a CTR investigation (£) | £32,179.15 | £22,000.14 | £26,914.19 | £13,923.28 | £95,016.76 |
| CTR Fraud and Error Overpayments identified (£) | £10,462.14 | £18,676.11 | £29,308.22 | £5,502.42 | £63,948.89 |
| Financial Outcomes | £113,128.75 | £94,268.17 | £71,602.81 | £33,062.04 | £312,061.77 |

Audit and Counter Fraud 2022/23

Direct Payments Results 1 April 2022 to 31 March 2023

Adults Social Care

| Financial Year 2022/23 | Number of Audit Reviews | Total Direct Payment and Financial Contribution for Recovery |
|-----------------------------------|------------------------------------|---|
| April | 129 | £372,125.60 |
| May | 83 | £188,483.36 |
| June | 91 | £237,602.47 |
| July | 153 | £392,376.24 |
| August | 98 | £251,587.73 |
| September | 85 | £263,925.00 |
| October | 128 | £287,061.97 |
| November | 86 | £191,315.25 |
| December | 55 | £98,473.79 |
| January | 87 | £214,406.04 |
| February | 127 | £442,646.17 |
| March | 109 | £212,525.22 |
| Total | 1,231 | £2,865,466.87 |

Children and Young People

| Financial Year 2022/23 | Number of Audit Reviews | Total Direct Payment for Recovery |
|---------------------------|----------------------------|---|
| April | 20 | £10,846.10 |
| May | 10 | £8,805.31 |
| June | 7 | £10,707.09 |
| July | 17 | £9,205.66 |
| August | 18 | £10,943.14 |
| September | 20 | £10,849.51 |
| October | 10 | £5,052.47 |
| November | 44 | £55,796.92 |
| December | 29 | £16,477.98 |
| January | 24 | £11,912.94 |
| February | 4 | £4,673.60 |
| March | 49 | £33,705.68 |
| Total | 252 | £188,976.40 |



Report to Audit Committee

Proposed Audit Committee Work Programme for 2023/24

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Assistant Director of Corporate Governance and Strategic Financial Management.

8 June 2023

Purpose of Report

To present to the Audit Committee, a proposed work programme for 2023/24.

Executive Summary

Appendix 1 sets out a proposed work programme for the Audit Committee for 2023/24. Members are therefore asked to consider the content of the Appendix and advise of any amendments or revisions.

Recommendation

That Members of the Audit Committee consider the attached Appendix setting out the proposed work programme for 2023/24 and comment as required.

Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|--|---|---|
| Thursday 8 June 2023 at 6.00 pm | Audit Committee Chair – Charged with Governance, Management Processes and Arrangements. | The draft response of the Audit Committee Chair to provide key assurances to support the Audit Process which are then discussed by the Committee. |
| | Director of Finance – Charged with Governance, Management Processes and Arrangements. | The draft response of the Director of Finance to provide key assurances to support the Audit Process which are then discussed by the Committee. |
| | Update on Key Developments within the remit of the Committee. | This report provides an update on matters pertinent to this Committee including an update on the final accounts, developments linked into the future oversight of local audit and planned training for the Committee. |
| | Local Code of Corporate Governance | This is an update to the previously agreed Local Code of Corporate Governance. |
| | Internal Audit and Counter Fraud Progress Report on 2022/23 | An update report on the progress made by the Internal Audit Service. |
| | Proposed Audit Committee Work Programme for 2023/24 | This report detailing the proposed work programme for 2023/24 including actions required to support the approval of the Statement of Final Accounts which are not yet closed. |
| | Private Report; Partnership Risk Dashboard | This is the regular report produced for the Committee to assess the ongoing risk to the Council from its key partnerships. |
| | Private Report, Senior Information Risk Owner Update | An update report by the Senior Information Risk Owner of key developments in Information Governance impacting on Oldham Council. |

Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|--|--|--|
| Tuesday 27 June 2023 at 6.00 pm | Update on External Audit Matters | An update if required, on national developments linked into the on-going developments and consultations on the provision of external audit to Local Government Bodies. |
| | 2022/23 Annual Report to Audit Committee | This is the Annual Report of the Chief Internal Auditor on the overall Internal Control Environment of the Council for the financial year 2022/23. |
| | Draft 2022/23 Annual Statement of Accounts | This is the report to the Audit Committee on the draft Statement of Accounts which also details the outturn for the financial year 2022/23. |
| | Draft Annual Governance Statement for 2022/23 | The detailed review of the Draft Annual Governance Statement by the Audit Committee in advance of the Statement of Final Accounts. |
| Page 183 | Reserves Policy for 2022/23 to 2023/24 | This is the annual update to the Reserves Policy considering the provisional out-turn for the financial year 2022/23. |
| | Treasury Management Review 2022/23 | The annual review of Treasury Management for 2022/23 by the Audit Committee. |
| | Feedback on the Chartered Institute of Public Finance and Accountancy (CIPFA) Review of the Internal Audit Service | This is the feedback to the Committee of the review undertaken of the Internal Audit Service and whether its working practices comply with International Auditing Standards. |
| | Private Report; Update on the Corporate Risk Register | A report on the Corporate Risk Register as at 31 March 2023. |
| Thursday 20 July 2023, 6.00pm. | Update on External Audit Matters | An update if required, on national developments linked into the on-going developments and consultations on the provision of external audit to Local Government Bodies. |

Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|--|--|---|
| | Update on 2020/21 and 2021/22 Annual Statement of Accounts | This is an update on the accounts for these two financial years which still require formal audit sign off. |
| | Internal Control Matters for Adult Social Care | This is the report to Committee on Internal Control Matters within the Adult Social Care Service. |
| | Compliance with the CIPFA Code of Financial Management | This report details the assessment within Oldham Council on how it complies with the CIPFA Code of Financial Management with appropriate recommendations for improvement. |
| | Update on Financial Administration in Local Authorities | A report detailing challenges experienced in the financial administration at other Local Authorities including Section 114 Notices issued as reported in the public domain. |
| | Proposed Audit Committee Work Programme for the Municipal Year 2023/24 | A report detailing the proposed work programme for 2023/24 including actions required to support the approval of the Statement of Final Accounts which are not yet closed. |
| | Private Report; Update on the Annual Governance Statement for 2022/23 and new issues for 2023/24 | This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee. |
| | | |
| Tuesday 5 September 2023, 6.00 pm | Update on External Audit Matters | An update produced by the External Auditor of issues to be brought to the attention of this Committee. |
| | 2022/23 Statement of Final Accounts | This report provides an update on the 2022/23 draft Statement of Accounts and associated issues arising from the external audit. |
| | The CIPFA Audit Committee Guidance Documents | This report sets out the updated guidance issued by CIPFA in respect of the best practice to follow in operating an Audit Committee. |

Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|---|---|--|
| | Audit and Counter Fraud Progress Report including significant issues highlighted on internal control | This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified. |
| | Proposed Audit Committee Work Programme for 2023/24 | This report detailing the proposed work programme for 2023/24 including actions required to support the approval of the Statement of Final Accounts which are not yet closed. |
| | Private Report; Update on the Annual Governance Statement for 2022/23 and new issues for 2023/24 | This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee. |
| | Private Report; Update on the Corporate Risk Register | This sets out the position as of 30 June 2023 in relation to matters included on the Corporate Risk Register. |
| | | |
| <p>Tuesday 31 October 2023, 6.00pm</p> | External Audit Progress Report | An update produced by the External Auditor of issues to be brought to the attention of this Committee. |
| | Treasury Management Mid-Year Review 2023/24 | The planned scrutiny of the 2023/24 Treasury Management Mid-Year review before submission to Cabinet in November. |
| | Update on General Matters | This is an update on regulatory developments to inform the Audit Committee in support of its Governance role. |
| | The Financial Reporting Council (FRC) 2023 reports | This report updates the Committee on the transition of the FRC to the Auditing Reporting and Governance Authority. It also details the findings from the Quality Review of Local Authority and National Health Service audits undertaken across the public sector in the calendar year 2023. |
| | 2023/24 Internal Audit and Counter Fraud Progress Report including significant issues highlighted on internal control | This is the routine report on the progress made against the agreed audit and counter fraud plan detailing any control weaknesses identified. |

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Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|--|--|---|
| | Updated Audit Committee Work Programme for 2023/24 | This report detailing the proposed work programme for 2023/24 including actions required to support the approval of the Statement of Final Accounts which are not yet closed. |
| | Private Report; Partnership Risk Dashboard | This is the regular report produced for the Committee to assess the on-going risk to the Council from its key partnerships. |
| | Private Report; Update on the Annual Governance Statement for 2022/23 and new issues for 2023/24 | This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee. |
| Page 186 | Private Report; Update on the Corporate Risk Register | This sets out the position as of 30 September 2023 in relation to matters included on the Corporate Risk Register. |
| | Private Report; Senior Information Risk Owner update | This updates the Audit Committee on the key matters relating to data protection and information security breaches |
| | | |
| Monday 15 January 2024, 6.00 pm | External Audit Progress Report | An update produced by the External Auditor of issues to be brought to the attention of the Committee. |
| | External Audit of Teachers' Pensions Agency Return 2022/23 | This report considers the feedback following the external audit of the Teachers' Pension Agency return. |
| | Treasury Management Strategy Statement 2023/24 | This report sets out the Proposed Treasury Management Strategy for 2023/24 to support the Corporate Objectives of the Council. |
| | Internal Control Matters; Payroll | This is the report to Committee on Internal Control Matters within the administration of payroll. |
| | Audit and Counter Fraud Progress Report including significant issues highlighted on internal control | This is the routine report on the progress made against the agreed Audit and Counter Fraud plan detailing any control weaknesses identified. |

Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|-------------------------------------|---|--|
| | Proposed Audit Committee Work Programme for the remainder of 2023/24 and the 2024/25 financial year | This report detailing the proposed work programme for 2023/24 including actions required to support the approval of the Statement of Final Accounts which are not yet closed. |
| | Private Report; Update on the Annual Governance Statement for 2022/23 and new issues | This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee. |
| | Private Report; Partnership Risk Dashboard | This is the regular update requested by the Committee on partnership governance considering potential issues identified on governance elsewhere. |
| | Private Report; Update on the Corporate Risk Register | This sets out the position as of 30 September 2023 in relation to matters included on the Corporate Risk Register. |
| | | |
| Tuesday 6 March 2024, 6.00pm | 2022/23 Annual Statement of Accounts - Update | Update on the progress of the audit of the 2022/23 accounts and related matters. |
| | 2023/24 Final Accounts – Proposed Accounting Policies and Critical Judgements | In line with best practice, approval is sought for the significant accounting policies and critical judgements to be adopted in preparation for the completion of the 2023/24 Statement of Accounts. |
| | Housing Benefit Subsidy Audit 2022/23 | This report considers the feedback on the external audit of the Housing Benefit Subsidy Grant claim. |
| | Internal Audit Charter 2024/25 | An updated Internal Audit Charter for the financial year 2024/25. |
| | Update on General Matters | This is an update on regulatory developments to inform the Audit Committee in support of its Governance role. |

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Updated Audit Committee Work Programme for the 2023/24 Municipal Year

Appendix 1

| Meeting Date & Venue | Agenda Item | Summary of Report Issue |
|----------------------|--|--|
| | Proposed Audit Committee Work Programme for the remainder of 2023/24 and the future 2024/25 financial year | This report detailing the proposed work programme for the remainder of 2023/24 including actions required to support the approval of the Statement of Final Accounts which are not yet closed and setting out the future plan of work for 2024/25. |
| | Private Report; 2024/25 Internal Audit and Counter Fraud Plan | The proposed plan of work for the financial year 2024/25 to enable review by the Committee. |
| | Private Report; Update on the Corporate Risk Register | An update on the Corporate Risk Register as of 31 December 2023. |
| Page 188 | Private Report; Update on the Annual Governance Statement for 2022/23 and new issues | This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Assistant Director of Corporate Governance and Strategic Financial Management highlights to the Audit Committee. |

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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