

## Report to Audit Committee

# Update on External Audit Matters

**Portfolio Holder:** Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Low Carbon

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### Reason for Decision

To provide Members with an update on matters relating to both the future oversight of external audit within Local Government and matters of interest from Public Sector Audit Appointments (PSAA), who oversee the appointment and high-level quality of external audit provision.

### Executive Summary

The report updates Members of the Committee on:

- The latest developments within external audit regulation following the production of the Redmond Report, and the recommendations which were made.
- The proposed procurement exercise which, subject to Local Authorities exercising their right to opt in, is to be undertaken by the PSAA to appoint their external auditors from 1 April 2023.
- An update on the overall reported performance of external audit opinions issued for Local Authority accounts before the Statutory Deadline of 30 September 2022.

### Recommendations

Members are requested to note the developments outlined in this report.

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**Update on External Audit Matters**

**1. Background**

- 1.1 This report is to brief Members of matters linked into proposed developments for the Regulation of Local Authority External Audit resulting from the past publication of the Redmond Report and current ongoing matters linked into external audit associated with Public Sector Auditor Appointments (PSAA).
- 1.2 As previously reported to this Committee the PSAA currently appoint the external auditors to the Council and provide oversight of the sector for Local Authorities.

**2 Update on Redmond, including proposed Statutory Oversight of the sector and latest position on external audit fees**

- 2.1 The production of the Redmond Report highlighted that the regulation of external audit overseeing Local Government required reform. One of the most significant recommendations concerned the impact of abolishing the Audit Commission and the impact it had on overseeing external audit in both Local Government and the NHS. The preferred approach of government in response to the Redmond Report was to propose the inclusion of a separate unit to oversee public audit within the Audit Regulation and Governance Authority (ARGA) to provide oversight of both private and public sector audit. This was not fully in line with the Redmond report which recommended the creation of an independent body to oversee Local Government and NHS audit. ARGA is to be the successor body to the Financial Reporting Council. As well as concerns with Local Authority audit, there are also matters on the audit of private companies which require future regulatory reform. Whilst matters on the final design of ARGA are under consultation it is generally accepted this will happen and is broadly supported. One specific challenge it will need to manage is balancing up any conflict on approach between private and public audit.
  - 2.2 When the reforms become legislation, it would be sensible to review the Terms of Reference of this Committee as detailed guidance is expected on how Audit Committees will operate in the future. One requirement is likely for it to become mandatory to appoint Independent Members to the Audit Committee. In practice the Council has this flexibility, within its present constituted Committee but the challenge has been attracting suitably qualified individuals to undertake this role. Given this will probably become a requirement for all Authorities the practicalities of implementation could become a difficult issue.
  - 2.3 Should the implementation work as planned; it is possible that a new Code of Practice for the external audit of Local Authorities will be developed from the financial year 2023/24. At present, the requirement is to update the Code every 5 years. The last update was completed in 2020. Given the Local Government environment has more challenges than historically (Section 114 Notices being issued, Capitalisation Directions required, Statutory Recommendations being issued, some authorities not having their accounts signed off for a number of financial years as examples) it does not seem inappropriate to do this in advance of the 5-year requirement.
  - 2.4 The final matter to bring to the attention of the Audit Committee, is the future need to prepare an Annual Report to full Council (at present it is included in a joint Scrutiny Report for all of these Committees). This seems sensible and is something the Audit Committee in this Authority used to do several years ago. In advance of it becoming a Statutory Recommendation, it is perhaps something the Committee would like to consider for the financial year 2021/22 in say the summer/ autumn of 2022.
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### **3. The forthcoming Procurement of External Auditors from 1 April 2023.**

- 3.1 One key recommendation from the Redmond review was that legislation should be put in place, so Local Authorities do not have the power to appoint their own auditors. Since the abolition of the Audit Commission an individual Local Authority could appoint their own auditor if they wanted. In practice the vast majority including Oldham have opted into the procurements undertaken by the PSAA (the successor body set up after the abolition of the Audit Commission overseen by the Local Government Association). The current contracts for audit procurement let by the PSAA expire after the end of the financial year 2022/23.
- 3.2 The PSAA is now consulting on whether individual Local Authorities would want to exercise their right to appoint their own external auditor, or opt into the proposed procurement to be undertaken by the PSAA. These contracts overseen by the PSAA are for a period of five years. At present the arrangement for Oldham Council external audit mirrors that for the other 9 Districts and the Greater Manchester Combined Authority in that all have a common auditor (Mazars LLP). This approach was agreed by the Treasurers as a collective and has benefits on common issues having one interpretation such as the investment in Manchester Airport.
- 3.3 The recommendation of the Director of Finance and the Assistant Director of Finance for Corporate Governance and Strategic Financial Management is that the Council should opt into the procurement exercise undertaken by the PSAA. It is consistent with the principle recommended in the Redmond Review that Local Authorities should not appoint their own auditor. In terms of price, there is a likely benefit from a bulk procurement, and it is uncertain if Oldham was to undertake its own procurement it would attract an appropriate external auditor. As Redmond highlighted in the review there are only limited participants in the market prepared to undertake Local Authority audit.
- 3.4 It is considered important to highlight this matter to the Audit Committee for discussion. The previous approach which was for all the Manchester Districts and the GM Combined Authority to have the same auditor is a sensible approach.

### **4. Feedback on 2020/21 Audit of Accounts**

- 4.1 In relation to the 2020/21 audit of accounts, Members will recall that the Accounts and Audit Regulations were amended so an audited opinion on the Statement of Final Accounts was required by 30 September 2021. This is also the target date for the audit of the accounts for the financial year 2021/22.
- 4.2 In terms of external audit delivering this opinion, it has only been achieved at 9% of upper or middle tier Local Authorities subject to the regime. This highlights the issues identified by the Redmond Review around the capacity in the market to provide external audit to Local Authorities. This clearly needs to be addressed. Oldham Council is one of the 9% of authorities who have obtained such certification. For Oldham it is important to highlight that it obtained its audit opinion (excluding the value for money opinion within the deadline) which is a good position to be in nationally.
- 4.3 This overall position is a decline in the performance for the previous financial year (2019/20) whereby 43% of audit opinions were issued within the later statutory deadline of 30 November 2020. Both deadlines for the audit opinions (as well as 2021/22) have been extended from the underlying target date set out in the Accounts and Audit Regulations which envisages the opinion being given by the end of July. It would be easy to just blame the pandemic/ switch to home working for this dip in performance as the single reason, but it is likely there are several other issues as detailed below:
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- The capacity of external audit to meet the deadline for both Local Government and the NHS (this has been highlighted in the Redmond Review).
- A lack of capacity within Finance Teams at several Local Authorities to meet the deadline (recent returns for the provisional revenue out-turn for the financial year 2020/21 were not submitted on time by 62 Authorities).
- Issues arising at a selection of authorities which are difficult to resolve (examples would be legitimate complaints by registered electors on material transactions or accounting for income from third parties) within the deadline and can take a number of years to resolve.
- Poor accounting practice in a small minority of authorities (a recent publication identified an example of a District Council who did not charge a year's pension costs to its revenue account in error).

## 5 **Options/Alternatives**

5.1 N/A.

## 6 **Preferred Option**

6.1 N/A.

## 7 **Consultation**

7.1 N/A.

## 8 **Financial Implications**

8.1 N/A.

## 9 **Legal Services Comments**

9.1 N/A.

## 10 **Cooperative Agenda**

10.1 N/A.

## 11 **Human Resources Comments**

11.1 N/A.

## 12 **Risk Assessments**

12.1 N/A. (Mark Stenson)

## 13 **IT Implications**

13.1 N/A.

## 14 **Property Implications**

14.1 N/A.

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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

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22 **Appendices**

22.1 None.

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