

South Northamptonshire Council

Audit Committee

19 November 2020

Independent Review into Local Authority Audit and New System for Fee Variations

Report of Temporary Assistant Director – Finance and Procurement and Deputy Section 151 Officer

This report is public

Purpose of report

To receive the information on the independent review into the oversight of local authority audit and the new system for fee variations.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the independent review into the oversight of local authority audit and the transparency of local authority financial reporting.
- 1.2 To consider the Public Sector Audit Appointments – Proposed new system for fee variations and feedback any comments to officers by Friday 25 November 2020.

2.0 Introduction

Independent Review into Local Authority Audit

- 2.1 On the 17 September 2019 the Government published a consultation which sought views on the quality of local authority financial reporting and external audit and highlighted that there would be an independent review on the subject matter which would be led by Sir Tony Redmond.
- 2.2 Officers drafted the response to the consultation which was considered by Members of the Committee on 21 November 2019. Consultation sections:
 - Definitions of Audit and Users of Accounts
 - The Expectation Gap
 - Audit and Wider Assurance
 - The Governance Framework and the Audit System
 - Audit Product and Quality
 - Auditor Reporting
 - The Framework for Responding to Audit Findings
 - The Financial Reporting Framework

- Other Issues

- 2.3 The Committee consultation response in appendix 2 was submitted on 19 December 2019.
- 2.4 The independent review into the oversight of local authority audit and the transparency of local authority financial reporting was published on 8 September 2020.

Public Sector Audit Appointments - Proposed new system for fee variations

- 2.5 This second consultation response deadline is 1 December 2020 and therefore there is an opportunity to raise the issues with members of this committee and for them to feed their own views into the consultation response.

3.0 Report Details

Independent Review into Local Authority Audit

- 3.1 The Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound. It is important to note that this Review encompasses not only principal local authorities but also PCCs, Fire and Rescue Authorities, Parish Councils and Meetings and Drainage Boards.
- 3.2 The outcome of this Review is designed to deliver a new framework for effective local audit and an annual financial statement which enables all stakeholders to hold local authorities to account for their performance together with a robust and effective audit reporting regime.
- 3.3 The Review proposes additional costs arising from a fee increase and suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration.
- 3.4 The implementation of a new regulatory body would be responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards.
- 3.5 Options for reform are:
- Review of International Financial Reporting Standards (IFRS) as a basis for the preparation of local authority accounts.
 - Expansion and standardisation of the current narrative statement.
 - Introduction of a new summary statement presented alongside the IFRS accounts
- 3.6 The Review recommendations cover the:
- External Audit Regulation
 - Smaller Authorities Audit Regulation
 - Financial Resilience of local authorities

- Transparency of Financial Reporting

3.7 The full Review is provided at appendix 1.

Public Sector Audit Appointments - Proposed new system for fee variations

3.8 This consultation considers a new fee variations system which will look at national and local variation arrangements. Fee increases of 25% are being proposed in recognition of the importance of maintaining a sustainable local audit market.

The full consultation document is provided at Appendix 3.

3.9 The consultation document is 10 pages long and asks 6 questions about the proposed new fee variation system

3.10 Officers will draft a response to the consultation which will include their own professional view as well as considering the views being expressed by their representative professional bodies (CIPFA for example), the views from the relevant professional bodies are not available at the time of writing this report.

3.11 Members of the Committee are invited to consider the new fee variations system and feedback any particular comments they have on the consultation so that they can also be considered for inclusion in the final response. The consultation closes on 1 December and therefore any comments from Councillors are requested by 25 November 2020.

3.6 The draft consultation response will be discussed with the Committee chairman before submission.

4.0 Conclusion and Reasons for Recommendations

4.1 The Independent Review provides a comprehensive review into the oversight of local authority audit and the transparency of local authority financial reporting. The Review recommendations and options propose reform to provide for an effective local audit that demonstrate accountability for audit performance to the public.

4.2 The consultation provides information on the Public Sector Audit Appointments new system for fee variations and gives the opportunity for members to have their views included in the final response which will be submitted after consultation with the Chairman of the Committee.

5.0 Consultation

5.1 Members provided a consultation response to the Independent Review in November 2019.

5.2 We are seeking the opportunity to share the Public Sector Audit Appointments new system for fee variations consultation with members of the audit committee to see if they have any particular views, they wish to have considered for inclusion in the consultation response.

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Members could choose not to consider the Independent Review or New System for Fee Variation consultation, but the opportunity would be missed to feed into the consultation response.

7.0 Implications

Financial and Resource Implications – Mandatory paragraph

- 7.1 There are no financial implications arising directly from this report.

Comments checked by:

Kate Crussell, Finance Business Partner,

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Legal Implications – Mandatory paragraph

- 7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

Andrew Hunkin, Executive Director – Resources (Monitoring Officer)

Tel: 0300 003 0202

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Risk Implications - Mandatory paragraph

- 7.3 There are no risk implications arising directly from any outcome of this report.

Comments checked by:

Geoff Kent, Assistant Director – Customers & Corporate Services

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8.0 Decision Information

Wards Affected All wards are affected

Links to Corporate Plan and Policy Framework All corporate plan themes

Lead Councillor None

Document Information

Appendix number and title

- Appendix 1 – Independent Review
- Appendix 2 – Independent Review Consultation Response Dec19
- Appendix 3 – New System for Fee Variations Consultation Nov20

Background papers

None

Report Author and contact details

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