

Re-energising local public audit

Jon Roberts
Head of Public Policy Audit



My career journey

A local auditor and proud of it

- Joined District Audit in July 1987
- RSM Robson Rhodes Bristol from 2002
- Made partner and set up Grant Thornton's Birmingham local audit team from 2007
- Back to Bristol
- Public Policy of Audit from 2018
- Still have a portfolio of audits



So why be an auditor?



- Making a difference to tax-payers' money
- Variety of public bodies – LG, health, blue light, etc
- In different locations
- Test of professional mettle
- Broad skills-set: accounts, VFM, challenge
- In the public interest
- Just being there makes a difference

Audit under siege – a ‘Crisis’ in confidence in audit



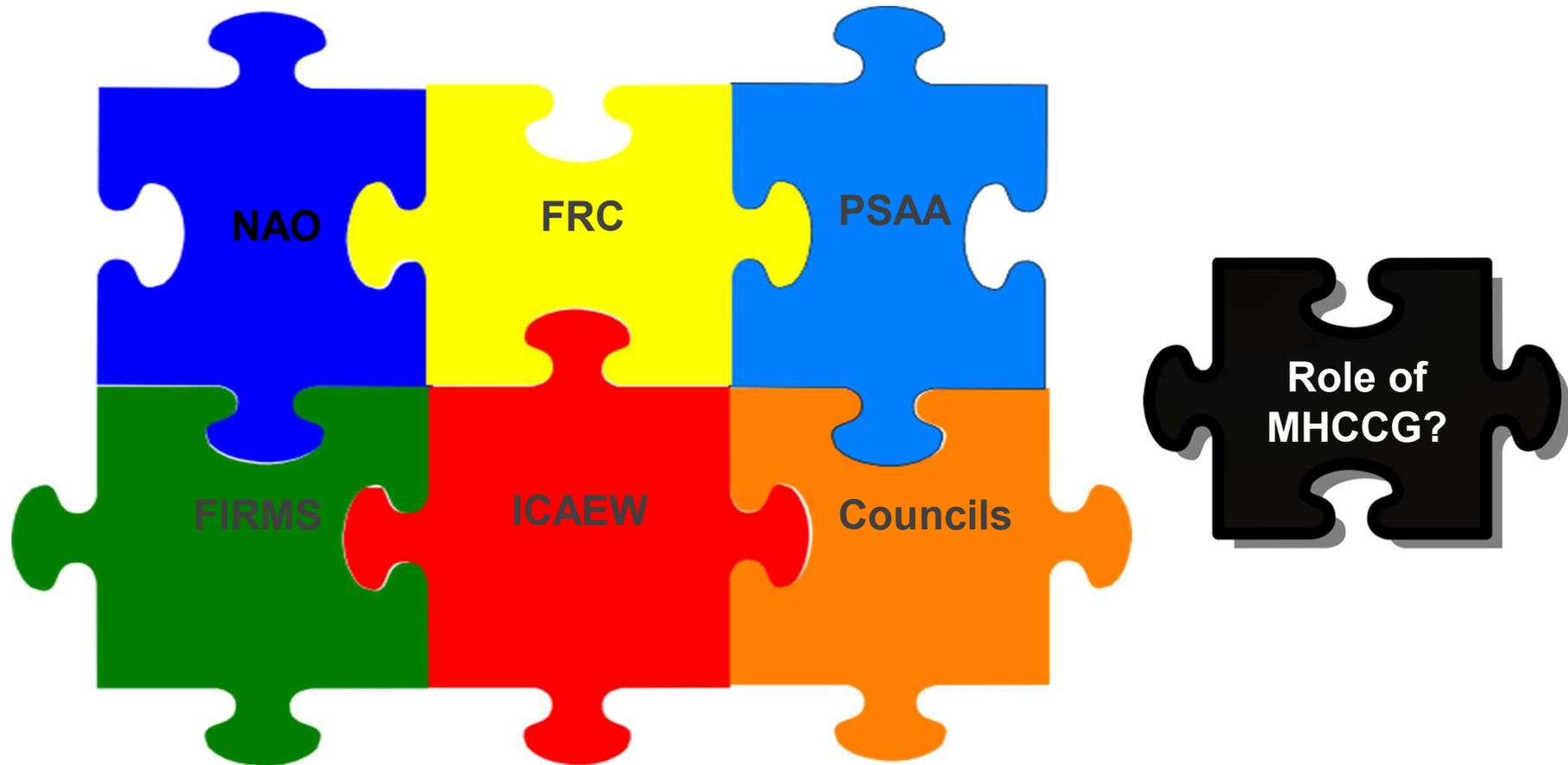
In the public sector ...

What did the Audit Commission ever do for us?

- Delivered audits
- Set the Code of Audit Practice
- Set fees
- Mandated work
- Regulated quality



Responsibilities under the Local Audit and Accountability Act



Early close

Accounts and Audit Regulations

Draft Accounts	30 June	→	31 May
Published Accounts	30 September	→	31 July
Audited Accounts <u>target</u>	30 September	→	31 July

Full effect from Summer 2018

Local government has changed

Longer more complex accounts, lower fees

The changing face of local government financial reporting – Birmingham City Council

	2008/09	2018/19
Auditor	Audit Commission	Grant Thornton
Length of financial statements (excluding opinion)	91 pages	219 pages
Length of audit opinion	3 pages	12 pages
Date opinion signed	Feb 2010 (11 months after year end)	September 2019 (6 months after year end)
Scale fee for audit opinion	£700,000	£241,000
Audit fee – grant claims	£300,000	£100,000

Regulator demanding more

- Regulators' role over firms
- The FRC's expectations for auditors
 - Increased scepticism and challenge
 - Increased focus on PPE, Pensions and other areas to the standards of the FTSE350
 - More robust reporting
 - More consistent audit quality

2019 Summer of discontent

- Over 40% audits not signed at 31 July
- More work = fee variations
- Accounts preparation and quality slippage
- Retention of audit teams under strain – highly employable people

**The position was not sustainable ...
and then came Covid19**

A market-only regime

PSAA Review of sustainability in the Audit Market (March 2020)

- A number of firms have left the market
- For those that remain: long hours, more regulation, increased pressure
- External audit an increasingly unattractive profession
- How do we attract and retain the CIPFA accountants and auditors of the future?
- Where is the next generation coming from?



Redmond to the rescue

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but also service delivery and ultimately, our faith in local democracy”.

James Brokenshire

Review to cover: reporting, governance, audit quality and scope. Focus on users and sustainability.

Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new audit firms to the local authority market has not been realised.

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman)
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Detailed findings

Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors including other parts of the public sector have significantly risen
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

Detailed findings

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff

Detailed findings

Financial reporting is overly complex / not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting e.g:
 - asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value
 - going concern disclosures are perceived to be less relevant in a local authority context than financial resilience

Detailed findings

Governance and transparency of reporting needs improvement

- The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

Detailed findings

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves, Auditors coming through the system are not developing a wider understanding of LG context
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/ LASAAC

Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

Sir Tony's Recommendations

A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries**.

What do I like?

Recognition that everyone plays their part:

- councils
- audit committees
- regulators/stakeholders
- CIPFA

Creates the conditions and expectation for firms to invest:

- timetable
- work content and status
- fees



But what else?

- Do it once – do it properly
- Involve the NHS
- Mandatory independent appointment for all
- Accounts simplification – WGA and the PPE ‘food chain’
- Increase market participation by former and new suppliers
- Focus on the urgency – in anticipation of legislation





[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2020 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.