

Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England

Call for Views

Response from the Chartered Institute of Public Finance and Accountancy (CIPFA)

December 2019

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org/

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Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England

CIPFA is very pleased to have the opportunity to provide input to this review, which is on matters in which we are extremely invested. CIPFA does of course have a genuine mission to build trust by strengthening public financial management, to both promote public finance globally, and encourage good governance in the public sector everywhere. Having said that, CIPFA historically has its roots in municipal finance, and over time we also established strong links with District Audit, which in due course became the Audit Commission.

The financial and operating environment of local authorities continues to be increasingly challenging. Sound governance and effective financial reporting is more important than ever, but it can be difficult for council taxpayers, service users and other stakeholders to understand how resources are used. CIPFA has a longstanding commitment to improving financial reporting and operates through CIPFA/LASAAC as the standard setter for local government across the United Kingdom.

It is also a matter of public record that CIPFA had significant concerns over the way in which the Audit Commission and associated frameworks for local public audit were discontinued. We were concerned that the decisions were implemented without sufficient consideration of those aspects of existing practice that were fundamental to the exercise of public accountability. While CIPFA worked with various stakeholders to support the development of the current framework to try to make the best of this, it is time to assess the current framework, which is not working as effectively as it needs to. Recent issues relating to audit resources against a background of resource constraint and concerns about financial sustainability have made this only too clear.

Key points

The call for views is a fact finding document that does not set out firm proposals, but seeks to develop a basis for further work. Detailed responses and comments on each chapter of the call for views are attached as an Annex.

From CIPFA's perspective, we suggest that the following matters are of particular importance:

- CIPFA considers that substantial changes are required to the audit framework. We agree with the recommendation of the Kingman review that the arrangements for local public audit should be fundamentally rethought, seeking to 'join up' what has become an overly fragmented structure for local audit in England. In our view the best way to achieve this would be through the creation of a separate body, bringing together regulatory responsibilities around the appointment of auditors, standards and guidance to be applied by auditors, external review of audit work, and enforcement in cases where audits are not conducted to sufficient quality. We also think it may be beneficial for this body to report on the overall local authority position, bringing together matters publicly reported in individual audits.
- There is scope to make improvements within the current audit framework, particularly inasmuch as audit work is driven by the Code of Practice for local public audit, and CIPFA has been actively engaged with this. The National Audit Office (NAO) has recently been consulting on the revised Code which will apply from 2020/21. Many of the questions in this review relate to matters where the NAO consultation is already proposing improvements, in line with suggestions from CIPFA

and other stakeholders. Broadly speaking CIPFA supports the NAO proposals, which should address a number of the issues raised in this call for views.

- CIPFA considers that improvements can also be made in financial reporting, and that the key messages about financial performance can be communicated more effectively. CIPFA and CIPFA/LASAAC are already pursuing initiatives that seek to help the readers of financial statements, while working within the constraints of accepted standards, and the need to properly reflect the sometimes complex affairs of local government bodies.
- Other improvements can be made in the governance arrangements for financial reporting and audit, particularly in making sure that auditor recommendations are properly followed up. A key concern from our perspective is that the current framework for audit committees does not provide the necessary challenge and support. In our view the role of audit committees in local government should be realigned to reflect best practice in the rest of the public sector.

Some of the more substantial changes outlined above are likely to take a number of years to implement. We would be happy to explore with the Review team how interim actions can be taken to improve the assurance framework in a shorter timeframe. Additionally, while the main focus is on process, frameworks, codes and guidance, improvement can also be achieved by improving the skillsets of auditors, accounts preparers and others in the governance framework. CIPFA is actively exploring how it can support public sector accountants and others through training and professional development.

Detailed comments

CIPFA considers that this Review has a vital role in improving the scrutiny of local authorities and enabling them to make the best use of scarce public sector resources. Our detailed responses to you are found in the Annex and their associated Appendices.

We hope this is a helpful contribution to the government's thinking on how to improve local authority financial reporting and audit in England.

Redmond Review – Call for Views – Detailed Commentary and Responses

Reference/Question	Comment or Response
<p><i>Opening comments on review</i></p>	<p>Local authorities are complex organisations that provide a wide range of key services to the public. Together with their other powers this means that they are vital to their locality and the support of local democracy. The current operating environment for local authorities is characterised by substantially decreasing budgets, increasing demand for services and numerous complex national policies. Similar comments could be made about police bodies.</p> <p>Local audit plays a fundamental role in providing local taxpayers and service users and also politicians, decision-makers and influencers with assurance on how effectively public money and resources are being used. The independent and objective assurance provided by local audit is vital to maintain public interest trust and confidence.</p> <p>CIPFA supports the recommendations from the Kingman review that the arrangements for local audit need to be fundamentally rethought and that a separate regulatory body should be established that would have a deeper expertise in the local audit world. We are of the view that this body would also need the expertise and understanding of international auditing standards that is available in the current regime. It is essential that the resources available, both in authorities and in the audit community, deliver the optimum outcomes for local government in supporting the Redmond Review objectives, and this should form part of the discussion arising.</p> <p>There needs to be an effective regulatory environment to support accountability, stewardship and appropriately resourced audit work for local authorities. CIPFA shares the concerns outlined in the call for views about resourcing issues for the audit process and this concern is underlined by feedback we have received. This is most recently demonstrated by the audit delays across the country but we also received informal commentary suggesting that some perhaps newer members of audit teams are not fully conversant with the financial reporting framework or the regulatory environment in which local authorities operate.</p> <p>The National Audit Office (NAO) has recently consulted on revisions to its Code of Audit Practice, which will apply to local public audit engagements from the 2020/21 financial</p>

Reference/Question	Comment or Response
	<p>year. The consultation includes proposals that respond to concerns expressed by stakeholders, many of which are also noted by the Redmond Review. CIPFA has responded to that consultation. The proposals include an increased emphasis on auditors having the skills and qualities and CIPFA is exploring what it can do to support auditors in relation to this. They also include a refocusing of the auditor's work on Value for Money (VfM), which if it can be implemented effectively should address key issues in relation to auditor reporting on financial sustainability and governance. CIPFA's responses to this call for views in some cases reflect the fact that certain matters may be addressed by changes to the NAO Code of Practice.</p> <p>It is vital that the financial statements and the reports that accompany them are able to effectively communicate key messages to those with an interest in the use of public resources. They are a cornerstone for accountability to demonstrate how public resources are used and managed. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:</p> <ul style="list-style-type: none"> • Discover how much is spent in a year on services and whether this has increased or decreased from previous years. • Consider the indebtedness of the local authority and how that might impact on future taxpayers. • Recognise the value and therefore usefulness of the assets that the authority holds. • Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers. <p>CIPFA concurs with the call for views that local authority financial statements in principle should be based on International Financial Reporting Standards (IFRS), adapted to reflect the economic circumstances of local authorities. We recognise the difficulties that local authority finance teams face in presenting financial performance because they have such a wide range of (potential) primary users. They are also complex organisations, with increasingly complicated transactions and there is therefore a limit to how simple the main financial statements can be.</p>

Reference/Question	Comment or Response
	<p>We have supported the CIPFA/LASAAC local authority accounting code board (CIPFA/LASAAC) to undertake a stakeholder survey in order to better understand their needs and particularly the needs of the users of the financial statements. Some of their key messages are presented in Appendix 1 to this response. CIPFA/LASAAC has recently issued two discussion papers that include proposals on how local authority financial statements might better present their messages for their key stakeholders. The discussion papers consider whether accounts could be made scalable through differential reporting frameworks and also look to address the issue of complexity which is a feature of some financial statements.</p> <p>One of the key communication issues raised in the call for views is how to address the tension between the different financial performance measures in the financial statements ie that of performance measured by the economic resources consumed by the authority and that of the measurement of performance in funding terms (ie the local authority council tax setting requirement). In our response to question 37 we outline three options that should be able address this issue and will still meet the principles of being measured on the basis of IFRS, as adapted for local government circumstances. These are currently being considered by CIPFA/LASAAC and will be subject to further consultative processes. CIPFA welcomes any feedback that the Review might have on these, or other, options.</p> <p>CIPFA/LASAAC's recent consultations also indicate that another mechanism to address communication and accountability for some groups of primary users would be to provide specific information and an overview of the financial performance, position and cashflows of local authorities. CIPFA would suggest that the overview might take the form of a summary of the financial statements and wishes to engage with CIPFA/LASAAC, CIPFA membership and other key stakeholders to consider what precise form this might take (though we have included some recommendations in our response to question 36). We recommend that this statement should be positioned at the front of the narrative report.</p> <p>CIPFA is concerned about the effectiveness of the current framework for considering and responding to external audit findings and recommendations. It is vital that, where significant issues are identified by auditors, the authority responds and provides corrective action as soon as possible.</p>

Reference/Question	Comment or Response
	<p>CIPFA is clear that local authority audit committees are a key component of an authority's governance framework as is set out in its position statement. We recommend that there should be a statutory requirement for a local authority to establish an audit committee.</p> <p>This committee should be supported by principles based statutory guidance (we consider that this could be based on the principles established in the CIPFA Position Statement on Audit Committees). To support our response we have undertaken a survey of key stakeholders and the key results of the survey are included in Appendix 2 to this response. CIPFA is keen to support further development work to enhance the effectiveness of audit committees and governance as a whole.</p> <p>In order to provide a fully comprehensive audit and assurance framework, CIPFA is of the view that the scope of the new audit and regulatory regimes must be clearly specified. It needs to cover the financial statements (and the reports that accompany them), governance and value for money ensuring that the elements monitored under the previous regime are clearly understood and effectively managed. Local auditors will need to understand the statutory powers available to them, some of which are already available and underused, and ensure that there is scope for them to be appropriately assessed. The new regime will also need to be properly resourced and monitored to ensure that local authorities, stakeholders and the public obtain value from the services they receive.</p>
Chapter 1: Definitions of audit and users of the accounts	
<p>Q1. Who, in your opinion, are the primary users of/main audience for local authority accounts?</p>	<p>The Review is aware that the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> ('the Code') is produced by the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC). The Code is produced under the auspices of the Government's Financial Reporting Advisory Board (FRAB).</p> <p>The Code as its name suggests is applied by local authorities across the United Kingdom and CIPFA/LASAAC's membership includes representatives from the four jurisdictions across the UK. The Code is updated annually and reflects both changes in accounting standards and the relevant regulatory requirements in each jurisdiction. Its development includes a full annual consultation process. While it reflects the legislative position across the UK (and each of the administrations across the UK is fully consulted with), as the</p>

Reference/Question	Comment or Response
	<p>standard setter for local government, CIPFA/LASAAC is properly independent from each of the four government bodies so that it takes decisions that reflect the economic reality of local authorities. This full due process should provide assurance for governments and maintain the credibility and longevity of the Code.</p> <p>The 2019/20 Code describes its primary users as <i>“service recipients and resource providers who cannot require local authorities to disclose the information they need”</i>.</p> <p>CIPFA/LASAAC arrived at this position following its streamlining and simplification and ‘Telling the Story’ reviews in the 2016/17 edition of the Code. Following on from this, specification in the Code is clear that this includes local authority members and members of parliament when acting as representatives of the interests of service recipients, and resource providers.</p> <p>This definition is very important and emanates from the IPSASB <i>Conceptual Framework</i>, which focuses on accountability for those stakeholders that cannot determine the reporting requirements in the financial statements.</p> <p>Both the IASB and the IPSASB <i>Conceptual Frameworks</i>¹ define primary users to assist standard setting so that they achieve a reasonable balance between explanation and understandability. Primary users are also established so that in producing the financial statements, accounts preparers are able to meet their information needs. Both <i>Conceptual Frameworks</i> accept that not all the information needs of primary users can be met and standard setters and accounts preparers have to balance these needs.</p> <p>It is important to note that in line with the IPSASB <i>Conceptual Framework</i> the government as regulator and local authority members (as the authority’s executive) are not primary users because they can set the financial reporting requirements for local authorities (ie they can request any form of financial report from a local authority at any time). However, in recognition of the government’s role as regulator, the Code recognises the assurance it</p>

¹ IASB, *Conceptual Framework for Financial Reporting* (IASB, March 2018); IPSASB, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (IPSASB, October 2014)

Reference/Question	Comment or Response
	<p>takes from local authorities producing a set of IFRS-based accounts and describes government as an interested stakeholder.</p> <p>The definition of primary users of local authority financial statements is properly a wide definition and includes service users, council taxpayers, business rate payers, housing tenants, council members and members of parliament (the last two as representatives of service users).</p> <p>It also includes resource providers, ie existing and potential lenders and other creditors who may be taking decisions about providing resources to it. This is important because increasingly local authorities are having to demonstrate their credit worthiness (despite their position in the Local Government Act 2003 which secures the money borrowed from a local authority) and are assessed by credit agencies. This might be for the emerging market for local authority bonds but may also be needed to support the assessment of credit risk for the substantial increases in inter-authority borrowing. It will be important therefore that information in local authority financial statements is useful to these bodies and is comparable to the best practice in the private sector as well as the public sector.</p> <p>CIPFA/LASAAC, in common with the wider public sector, has recognised that it is difficult to attract a readership for its financial statements including the primary users described above. CIPFA/LASAAC has developed its strategic direction and produced a vision statement. It has also embarked on a substantial consultation process to underpin its strategic direction and consider the needs of users and other stakeholders.</p> <p>A stakeholder survey was launched in 2019 and survey feedback summaries are available; however, the most relevant information is included in Appendix 1 to our response. Respondents to the survey self-identified to specific user groups. 'Users interested in accountability for public resources' (43 respondents) were particularly concerned with the complexity of the accounts. Other aspects of interest related to:</p> <ul style="list-style-type: none"> • governance and assurance • narrative reporting • summary information.

Reference/Question	Comment or Response
	<p>Some respondents also questioned the current approach to the application of accounting standards.</p> <p>The responses to the survey indicated that there were issues with clarity (see Appendix 1, chart A) and that there were difficulties in locating relevant information in the financial statements (see Appendix 1, chart B).</p> <p>Example comments from such users include:</p> <p><i>"The statement of accounts is too long and complex for the majority of stakeholders, in my experience the only users are the external auditors and treasury management advisors who have a professional knowledge."</i></p> <p><i>"The accounts are sometimes unnecessarily complicated by adaption of private sector-based standards, the effect of which is then subsequently reversed."</i></p> <p>Following the survey CIPFA/LASAAC issued, as mentioned above, two discussion papers to support further engagement in key areas. One aspect was the potential to define primary users as 'those with an interest in accountability for the use of public resources'. From the responses (18) received to early November there is a consensus that such users should be the focus for local authority financial reporting. There were different views as to whether or how this should be specified to ensure the objective is met. One respondent noted the lack of substantial public readership reflects the availability of other sources of information and public scrutiny. Budget reporting, annual accounts inspection and Freedom of Information requirements were cited as examples.</p> <p>CIPFA is of the view that while it has supported CIPFA/LASAAC's substantial work on stakeholder feedback, additional engagement may be required to more clearly identify users with an interest in public accountability and to identify their information requirements.</p> <p>CIPFA/LASAAC's work on communicating the key messages also focuses on the fact that local authorities are democratically elected bodies responsible for the delivery of local services. CIPFA concurs with and promotes this perspective. It is of the view that financial</p>

Reference/Question	Comment or Response
	<p>reporting and assurance arrangements should directly provide council taxpayers and other primary users with information about local authorities' effective use of resources and financial sustainability. It should also address the legitimate national oversight responsibilities of regulators. Ultimately it is service users and an authority's local community who are directly affected by the risk of service cessation or restriction in the event of financial difficulties.</p>
<p>Q2. Who are the other users of local authority accounts? Are any of these other users of accounts particularly important?</p>	<p>CIPFA would contend that there has been more interest in local authority accounting in recent years. There has been much more discussion in the media on local authority financial statements, and on particular aspects of those statements, for example, the new financial instruments standards and even on the effect of particular financial instruments.</p> <p>We consider that other users of local authority accounts include the following:</p> <ul style="list-style-type: none"> • other local authorities • credit agencies • academics. <p>The opportunity and mechanisms to hold local authorities to account has developed in recent years with increased activity from:</p> <ul style="list-style-type: none"> • media organisations • interested groups. <p>We consider that these groups are important as partners and other agencies as they:</p> <ul style="list-style-type: none"> • raise issues that are relevant to local authority accountability and stewardship and can provide appropriate challenge on these issues • raise the profile of local authorities

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> • could increase interest in these issues amongst service users and taxpayers. <p>We are of the view that as local authorities already have a wide range of primary users, if the needs of these users are met then it is likely that the requirements of the other users should be able to be served.</p> <p>The other users of local authority accounts are also able to access information by means of Freedom of Information requests.</p> <p>Our view is that the objective of local authority financial statements should be to provide clear, concise and relevant information for primary users. Information needs for other users should not obscure information relevant for primary users.</p>
<p>Q3. What level of financial literacy/familiarity with accounts and audit is it reasonable to expect the primary users of accounts to have and what implications does this have for the information presented in accounts and/or the information that should be subject to external audit?</p>	<p>Local authorities increasingly have complex transactions. Both the IASB <i>Conceptual Framework</i> and the IPSASB <i>Conceptual Framework</i> set out that where transactions are complex they cannot be simplified to the extent the transaction is not properly represented.</p> <p>The primary users include service recipients who may not want to consider the more complex information. However, as explained in the response to question 1 there is increasing interest in local authority financial statements for both lending and investing purposes. These and other advanced users will need a more complete explanation that actually captures the reality of what is happening. While these may not be typical service users they may be resource providers or may be acting on behalf of service users.</p> <p>Paragraph 2.1.2.23 of the 2019/20 Code therefore states that:</p> <p><i>"The financial statements are prepared for users with a reasonable knowledge of business and economic activities."</i></p> <p>There is therefore an expectation that readers of local authority financial statements will have reasonable knowledge of the local authority's business and economic activities. This appears to be generally supported by responses to the CIPFA/LASAAC stakeholder survey with most users indicating they are comfortable with the terminology used (see Appendix 1, chart C).</p>

Reference/Question	Comment or Response
	<p>It may, however, be challenging for some users to interpret information relating to the more complex issues. CIPFA recognises that local authority financial statements should be made as understandable as possible but that this has to be balanced with the fact that local authorities are complex organisations. Local authorities have a wide variety of responsibilities and local judgement regarding the provision of services such that they can be more complicated than some private sector entities. Additionally, some financial transactions undertaken by local authorities are inherently complex and are required to be reported, but conceptually these transactions cannot be simplified in a way that reduces or misrepresents the substance of the transactions.</p> <p>The Code (the remainder of paragraph 2.1.2.23) therefore states that:</p> <p><i>“Some economic and other phenomena are particularly complex and difficult to represent in local authority financial statements and some users may need to seek the aid of an advisor to assist in their understanding of them. All efforts should be undertaken to represent economic and other phenomena included in the financial statements in a manner that is understandable to a wide range of users. However, information should not be excluded from financial statements solely because it may be too complex or difficult for some users to understand without assistance.”</i></p> <p>This position in the Code was established following CIPFA/LASAAC’s first simplification and streamlining review and aligns with both the IASB and IPSASB <i>Conceptual Frameworks</i>.</p> <p>It emphasises the importance of the accounts and audit process for governance and risk management purposes. Information that is critical to governance should be readily available to the authority.</p> <p>Local authorities should also be able to compensate for some of the more complex information by explaining it in an effective narrative report.</p> <p>In addition to the use of more effective reporting of performance, financial sustainability and resilience, CIPFA is of the view that to assist all readers and promote the key messages it would be useful to explore the role of a summary of the financial statements, which is discussed in our response to question 36.</p>

Reference/Question	Comment or Response
	<p>CIPFA/LASAAC's recent consultative activities also considered the need for some of the groups of primary users to receive information on the performance of local authorities in areas of specific interest, for example in the area of the statutory framework for capital financing. This would need to be prioritised for these stakeholders.</p>
<p>Q4. Does the external audit process cover the right things given the interests of the primary users of the accounts/is the scope of the opinions wide enough?</p>	<p>CIPFA is of the view that the scope of the external audit process is largely appropriate for the financial statements. Our concerns for this area lie in the commentaries we receive that indicate that some local authority auditors are not fully conversant with the statutory and regulatory regime in which local authorities operate. These findings are not new and the challenge of ensuring that auditors are properly trained in the complexities of local authority finance will continue to test audit providers.</p> <p>As noted in our responses to questions 6 and 7, the audit of local authority financial statements has come to be associated with audit work on value for money, currently reported on through a VfM opinion. CIPFA's concerns in respect of the auditor's work on VfM are not so much with its scope but with how the work is focused. More detail on this is provided in our response to question 7.</p> <p>The audit process for local authorities should not be a uniform process but must take into account the size and the nature of the organisation being reviewed, based on a thorough understanding of the specific authority, and the more general context of public sector financial reporting and audit. The approach of both accountants and auditors to materiality needs to reflect this understanding. CIPFA would be happy to discuss the role of materiality in the local audit framework with the Review.</p>
<p>Q5. Is the going concern opinion meaningful when assessing local authority resilience? If not, what should replace it?</p>	<p>Before commenting on the going concern 'opinion', we would note that the 'going concern assumption' relates to the basis of financial reporting. It is a judgement made by the preparers of the financial statements that allows them to report the financial results in a coherent way, reflecting an understanding that the reporting will be continuing its business over the next year. The going concern 'opinion' is the auditor's assessment that this preparer judgement is reasonable. Strictly speaking the auditor does not provide an opinion on going concern – rather they report by exception if, based on their review of the</p>

Reference/Question	Comment or Response
	<p>evidence provided by the preparer, the auditor considers that the going concern assumption is inappropriate, or if there is material uncertainty about the entity's ability to continue as a going concern.</p> <p>For private sector companies, the preparer's assessment of whether the going concern assumption is appropriate can sometimes be very difficult. In such cases, auditors will need appropriate evidence to be provided, and the auditor's review of that evidence may itself be difficult.</p> <p>However, in much of the public sector, including all local authorities in England, matters are much simpler. The continuation of the activities of the reporting entity is effectively guaranteed by statute, even in cases where (for example, due to mismanagement or governance failures) the continuation of the reporting entity itself may be in doubt.</p> <p>For the reasons outlined above, for local authorities in England the going concern assumption applies automatically. Paragraph 3.2.4.23 of the Code states that</p> <p><i>"Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future."</i></p> <p>For the same reason, the auditor's assessment as to whether the going concern assumption applies is essentially trivial, and reporting on this adds little value. It is, however, a requirement of auditing standards to formally consider this matter, and to report by exception if there are material uncertainties.</p> <p>However, even if the going concern assumption and the auditor assessment applied in a way that is more comparable to private sector companies, we would not see this as addressing important issues around financial sustainability and financial resilience. Going concern is a relatively short-term concept, typically looking forward 12 to 18 months from the end of the financial year. It is vitally important that local authorities manage their operations in way that is financially sustainable in the short, medium and long term.</p>

Reference/Question	Comment or Response
	<p>In CIPFA's view, the best way to address issues around this is through the auditor's work on VfM, although concerns have been identified as to how this is operating as effectively as it could. Rather than 'replacing' the going concern opinion within the audit of financial statements, we suggest that the appropriate approach is to fundamentally refocus the VfM audit to address issues around financial sustainability of local authorities. CIPFA recommended this in our response to the Stage 1 consultation on the NAO Code of Audit Practice, and proposals around this have been set out in the Stage 2 Consultation.</p>
Chapter 2: The Expectation Gap	
<p>Q6. In your opinion, what should an external audit of a set of local authority financial statements cover?</p>	<p>Public sector audit has a wider scope than company audit, and in the United Kingdom it is generally framed in terms of financial audit and value for money (VfM) audit.</p> <p>Financial audit is focused directly on the financial statements prepared in line with the Code, with the objective of expressing an opinion on whether they provide a 'true and fair' view. Although there are important differences, it is in principle similar to company audit, and can be conducted in accordance with the same auditing standards. We would note in passing that stakeholders in public sector audit, including CIPFA, engage in the development of auditing standards to avoid circumstances where standards become unsuitable for public sector use. We would also note that CIPFA and other stakeholders in public sector audit contribute to the development of additional interpretative guidance (Practice Note 10), which helps public sector auditors to apply auditing standards.</p> <p>VfM audit is not necessarily associated with entity financial statements, but examines the activity of the entity, and the extent to which it represents economic, efficient and effective use of public resources. In the local authority sector the reporting on VfM audit has mainly come to be associated with reporting on financial audit. In England the responsibilities of auditors for VfM audit have been set out in the Local Audit and Accountability Act 2014, supplemented by the provisions of the Code of Audit Practice issued by the Comptroller and Auditor General (which also sets out requirements in relation to financial audit).</p> <p>CIPFA is content with the coverage of both financial audit and VfM audit as set out in the current Code of Audit Practice. However, as explained in our answer to question 7, in our responses to the NAO's recent Stage 2 consultation on the 2020 Code of Audit Practice we</p>

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	expressed concerns in respect of whether the focus of VfM audit was achieving the most beneficial result.
<p>Q7. In your opinion, what should the scope of the external auditor's value for money opinion be?</p>	<p>In CIPFA's view, the scope of the auditor's value for money work should encompass the systems that local bodies use to manage their operations, having due regard to efficiency, effectiveness and economy of operations and other aspects of governance such as probity and transparency. This might or might not be framed in terms of providing an 'opinion', and CIPFA and other stakeholders in local public audit have recently reconsidered whether this is the best approach.</p> <p>As referred to previously the NAO is currently progressing Stage 2 of its consultation on revising the Code of Practice for Local Audit in England.</p> <p>Stage 1 of this consultation explored whether the reporting on the results of the auditor's work on VfM (and by implication the nature of that work) were achieving an appropriate result. CIPFA's response to that consultation set out our view that the current VfM reporting is problematic in a variety of respects, and specifically suggested that it would be more effective to:</p> <ul style="list-style-type: none"> • move away from providing only a binary opinion • provide commentary and if appropriate recommendations to remedy identified weaknesses • specifically report on financial sustainability and governance. <p>The Stage 2 consultation on the NAO Code of Practice takes forward these comments. In our response to that consultation we explained that we were broadly content with the proposals, subject to the development of appropriate detailed guidance to support them.</p>
<p>Q8. What your view on the scope of an external audit engagement as is described in Chapters 1 and 2 of this</p>	CIPFA is content with the scope of the financial statements audit.

Reference/Question	Comment or Response
<p>Call for Views? If it is different from your expectations, does this have implications for the reliance you place on external audit work?</p>	<p>As noted above, from a technical perspective CIPFA's concerns are not precisely with the current 'scope' of the auditor's value for money work, but with how that work should be focused and reported upon.</p> <p>In line with the narrative in the call for views, the key decisions in relation to the governance and future prospects of a local authority are taken by elected members and statutory officers. The auditor carries out a verification and assessment role, having regard to the systems and other arrangements that are in place.</p> <p>Insofar as there is a gap between how this has (in some cases) operated and how CIPFA considers that it could more beneficially operate, we consider that by providing an opinion on the totality of systems, there is less assurance on how specific systems and arrangements are operating. For this reason, CIPFA considers that it would be helpful to have specific reporting in relation to the financial sustainability of the audited body, and on the adequacy of governance.</p> <p>While the auditor's work in this respect is necessarily in relation to how systems have operated in the past, we would note that it should address the systems and arrangements through which a local authority manages risks to financial sustainability, which from the authority's perspective are forward looking.</p> <p>In making changes and improvements to the audit framework, there may be additional costs for the audit work, and also the improvements may in turn require preparers to spend more time to respond to audit queries. We acknowledge that the costs of these should be at least partially offset by improvements as a result of the processes but we remain concerned about the cost pressures on councils that changes to the audit framework might lead to. Any changes to the audit framework need to be managed to minimise and contain any increase in audit related costs.</p>
<p>Q9. Should the external audit engagement be extended? If so, which additional areas/matters are most important for external auditors to look at? What would be the cost</p>	<p>CIPFA would not propose that the external audit engagement should be extended. In line with our comments above, CIPFA and other stakeholders have suggested that VfM audit work should be refocused and should explicitly address matters around financial sustainability and governance.</p>

Reference/Question	Comment or Response
implications of extending the engagement to the areas/matters you consider to be most important be?	
Part 2: Technical Call for Views	
Chapter 3: Audit and Wider Assurance	
<p>Q10. Should the scope of the VfM opinion be expanded to explicitly require assessment of the systems in place to support the preparation of some or all of the reports that statute requires to be presented to full council? If you do, which reports should be within scope of the external audit VfM engagement? If not, should these be assessed through another form of external engagement? If you believe that the VfM opinion should be extended to cover these reports will there be implications for the timing of audit work or auditor reporting?</p>	<p>As referred to previously the NAO is currently progressing Stage 2 of its consultation on revising the Code of Practice for Local Audit in England (Code of Audit Practice).</p> <p>The Stage 2 consultation on the NAO Code of Audit Practice takes forward these comments. In our response to that consultation we explained that we were broadly content with the proposals, subject to the development of appropriate detailed guidance to support them.</p> <p>Specifically, however, CIPFA is of the view that the scope of the value for money audit should include consideration of all the key statutory 'reports' (eg the council tax requirement, the section 25 report budget report etc) because these are vital parts of local authority performance, accountability and stewardship and would support any assessment of financial sustainability and resilience. We also consider that these would be included in both the audit of the financial statements and the audit of financial sustainability.</p> <p>We would note that our view of the importance of these elements of the local authority accountability framework (including and systems required to prepare the reports) is best demonstrated in CIPFA's Financial Management Code, which includes explicit standards on these issues (see particularly sections 3 and 4 of the Financial Management Code). Again this should be covered by any audit of financial sustainability.</p> <p>While we are of the view that it is important to gain assurance over these elements of the local authority accountability framework, we also consider that this needs to be balanced with the need to maintain the autonomy, flexibilities and the principle of self-management afforded by the Prudential Framework. We would note that this framework has been very successful and that the majority of local authorities have effectively managed their</p>

Reference/Question	Comment or Response
	<p>resources over a prolonged period of resource reduction (with the notable exception of some outlier activities).</p> <p>We consider that any specific guidance on the current scope of VfM audit should have the effect of causing auditors to pay due attention to the issues we identify above.</p>
<p>Q11. Should external auditors be required to engage with inspectorates looking at aspects of a local authority's service delivery? If you believe that this engagement should happen, how frequent should such engagement be and what would be the end purpose of doing so?</p>	<p>We consider that the work of other inspectorates might provide useful information relating to financial sustainability, governance and economy, efficiency and effectiveness in the use of resources. We therefore think that it would be useful that auditors engage with the inspectorates and the outcomes of any review.</p> <p>The review may wish to consider the approach in Wales where an important activity for the Auditor General for Wales is the co-ordination of assessment and regulatory work (as required by section 23 of the Local Government Wales Measure 2009), which takes into consideration the overall programme of work of all relevant regulators at an improvement authority. The Auditor General may also take account of information shared by relevant regulators in their assessments.</p> <p>We consider that the frequency of engagement would depend on the work of the other inspectorates that may not issue reports on an annual basis. Potentially if the new regime introduced a new separate regulatory body (in accordance with the proposals in question 15 below) they would be able to have a co-ordinating role between the auditors and the inspectorates. The purpose of engaging the other inspectorates in the annual audit process is that although they are focusing on a service or a particular issue it is likely that the inspection may be able to provide relevant evidence in relation to the value for money issues being assessed, particularly in relation to governance and economy, efficiency and effectiveness on the use of resources.</p>
<p>Chapter 4: The Governance Framework for the Audit System</p>	
<p>Q12. Does the current procurement process for local authority audit drive the right balance between cost</p>	<p>CIPFA is aware of concerns that have been expressed that the current procurement process has not achieved the right balance.</p>

Reference/Question	Comment or Response
<p>reduction, quality of work, volume of external audit hours and mix of staff undertaking audit engagements?</p>	<p>Some stakeholders have expressed concern over the expertise of audit teams, with commentaries suggesting that some external audit staff may not understand the statutory framework. Fee pressure may also have reduced the pool of expertise available to complete audits in a timely manner. We would also refer the Review to our response at question 16.</p>
<p>Q13. How should regulators ensure that audit firms and responsible individuals have the skills, experience and knowledge to deliver high quality financial and VfM audits, whilst ensuring the barriers to entry do not get too high?</p>	<p>It is vital that audit firms and individual auditors have a good understanding of local government. They need to have a good understanding of the differences in financial reports from corporate accounts. Local authority accounts can be complex in ways that are very different from the complexities of company accounts. The underlying financial systems and processes are also very varied and complex.</p> <p>Although implicit in auditing standards that require the auditor to obtain a sufficient understanding of the operations of the audited entity, it may be helpful to provide greater clarity in appointment specifications on the specific requirement for key audit team members to have sufficient experience and understanding of the local audit context.</p> <p>To support VfM audit the auditor needs to have a good understanding of the risks facing the local government bodies. While there might be some areas of risk that are common across all local authority or police bodies, other risks will be more local, for example major projects or commercial ventures.</p> <p>For all audits, and also to ensure effective engagement and communication with the local government body, the auditors should have a good understanding of the governance structure of the sector, for example the role of elected councillors, the role of the audit committee, relevant legislation and the responsibilities of the Chief Finance Officer (CFO).</p> <p>Proposals in the current Stage 2 consultation on the NAO Code of Audit Practice include additional emphasis on necessary skills and qualities, which makes matters clearer to firms undertaking these engagements, but it would be helpful to reinforce these in the procurement and other processes.</p> <p>Evidence of the relevant skill qualities should be evaluated as part of the engagement process.</p>

Reference/Question	Comment or Response
	<p>It should be clear that evidence of such understanding will be expected in audit quality reviews where these are conducted.</p> <p>Going forward the regulator should encourage audit firms to develop public sector auditing expertise. CIPFA is also exploring how it can support auditor and other skillsets.</p>
<p>Q14. What metrics should regulators use when assessing whether financial and VfM audits are delivered to an appropriate level of quality?</p>	<p>We suggest that the Financial Reporting Council (FRC) might be well placed to comment on the metrics that regulators may use to assess whether activities have been delivered to appropriate quality, having regard both to the assessment of individual cases, and monitoring trends across the sector.</p> <p>Going forward, what is also important is that the requirements specified in the Code of Audit Practice are the most appropriate ones. Additionally that those involved in the quality assurance and review processes have a sufficient understanding of the local authority context and the specifics of public sector audit to carry out a balanced assessment.</p>
<p>Q15. Do you agree with the Independent Review of the Financial Reporting Council's findings and recommendations; and why do you agree/not agree? If you agree with the recommendations do you think the 'single regulatory body' should be the 'successor body to the FRC' or a sector specific entity? If you do not agree with the recommendations are there any other changes you would make to the regulatory framework for local authority audit?</p>	<p>It is a matter of public record that CIPFA had significant concerns over the way in which the Audit Commission and associated frameworks for local public audit were discontinued without adequate consideration of those parts that were necessary and needed to be maintained in any future arrangement.</p> <p>CIPFA therefore agreed with the Kingman Review that the framework for local public audit has become complex and fragmented. We also agreed that the arrangements evolved in a way that, without reflecting bad faith on the part of any of the stakeholders, nevertheless has the effect of prioritising cost reduction over audit quality. Particularly in the context of the wider scope of local public audit, which considers the arrangements that local bodies have in place to ensure that the delivery of services to local citizens is financially sustainable, and that governance arrangements that support decision making are effective.</p> <p>CIPFA supported an approach to the new framework that would bring together regulatory responsibilities around appointing auditors to conduct high quality audit, maintaining the Code and guidance that supports quality work, reviewing the quality of audit work in practice, and where necessary, enforcing sanctions in cases of failure. In our response to</p>

Reference/Question	Comment or Response
	<p>question 35 we also suggest that a new body should report publicly on audit findings to provide information and analysis on the strength of the local government system and enhance accountability.</p> <p>As to whether this joining up should happen within the framework of the FRC or its successor body, there are some significant differences between this activity and others currently undertaken by the FRC. The linkage with auditor appointment is also quite unlike anything we are aware of in the remit of the current FRC.</p> <p>Additionally when developing our commentary on the NAO's Stage 1 consultation on the Code of Audit Practice, we received feedback from some auditors reflecting on situations where quality assurance reviewers take a different view on what is material, what represents a significant risk or what is otherwise important. While the auditors have worked within the quality assurance recommendations, they have expressed concerns that this may have the effect of focusing audit efforts on matters that are, in their view, less important, reducing the value of local public audit. A key requirement of any review must be that those carrying out the review have a sufficient understanding of the entities being audited, and the extent to which audits need to be carried out differently and standards need to be applied for these entities.</p> <p>For the reasons above, on balance we continue to support the creation of a new separate regulatory body.</p>
Chapter 5: Audit Product and Quality	
<p>Q16. Do external audit firms have enough understanding of the local authority regulatory framework to focus audit work on the right areas? How do they/should they demonstrate this? Who should regulate this work?</p>	<p>CIPFA's response to this question is based on information received from its members, panels, boards, and networks and from other information which is publicly available.</p> <p>We would firstly note that we are aware of substantial issues relating to the resourcing of local audit. Public Sector Audit Appointments Limited's (PSAA's) press release indicated that more than 40% of the audits were not available at the statutory date for the publication of local authority financial statements. We would particularly highlight the issues that led to one firm delaying 19 audits.</p>

Reference/Question	Comment or Response
	<p>Our understanding is that in a number of areas audits have had to start late and to timescales that will not meet the statutory date for the publication of the accounts. Concerns were raised at an early stage in 2019 that auditors appeared less well-prepared than they were with the audit of the 2017/18 accounts, increasing the risk that 2018/19 accounts would be signed off late. These observations have been proven to be fairly accurate, with the majority of audit work in those areas taking place post year-end. This has been borne out in the latest Audit Contract Monitoring Report which indicates that 208 of the 486 audits were not issued with opinions by 31 July and more worryingly that 142 were not delivered by 30 September.</p> <p>These delays are very concerning – they impact on the authority being audited, putting additional pressure on finance teams and diverting resources from other projects. CIPFA would agree with the PSAA that the delays in audit have an impact on the costs of the audit process and also represent a reputational risk for the framework. We would add that while we do not advocate that local authorities rely (totally) on the external audit process for assurance on the financial resources it has available, it is an important part of the accountability framework for the budget setting processes.</p> <p>We also understand that there are substantial issues relating to the resourcing of local audit (CIPFA would note that it commented on audit resources when we responded to the then DCLG consultation on local audit in July 2014).</p> <p>Feedback from discussions with practitioners has indicated some concerns regarding the availability of audit resources with the necessary skills, experience and knowledge of UK local authority accounting, with audit resources either being brought in from overseas or tasks transferred abroad, including areas such as analytical review and treasury management. This may increase the risk that UK local government specific expertise and knowledge is not applied or available to inform the audit process.</p> <p>Some of our own colleagues have pointed to examples of the lack of scrutiny of the collection fund and resulting general fund entries, for example. This account performs an important element of local taxation accountability.</p> <p>CIPFA produces detailed guidance on the Code. This guidance includes example (illustrative) financial statements and accounting policies. CIPFA is clear that the example</p>

Reference/Question	Comment or Response
	<p>financial statements are illustrations only and are based on an assumption that the each of the transactions in question are material. The guidance is also clear that the examples should not be used as templates and should be tailored to meet local circumstances. CIPFA is extremely concerned that commentary has been received highlighting a case where an auditor insisted that a local authority use the text in the Code Guidance Notes.</p> <p>We think that it is important to highlight that we have received positive feedback on local authority auditors. One of our stakeholders said:</p> <p><i>"We have experienced no problems with our auditors ... who were subsequently replaced ... last year – we had a seamless transition and have had a very experienced and suitably skilled team from both organisations – sign off has been met for all years including this year where there has been nationally poor performance in this area."</i></p> <p>CIPFA is of the view that audit quality needs to be replicated across the sector. It considers that the local audit framework should include appropriate audit quality reviews reported on in accordance with best practice and taking into account the regulatory environment of local authorities. The framework should be able to ascertain whether auditors have the appropriate skills knowledge and expertise. CIPFA also considers that local audit framework should ensure that there is sufficient audit rotation.</p>
<p>Q17. Do auditing standards have a positive impact on the quality of local authority financial audits?</p>	<p>Auditing standards are an essential component of local authority financial audit. Inasmuch as there may be issues, they may reflect private sector expectations as to how the standards should be applied. This reinforces the needs for auditors to have a proper understanding of the public sector audit context.</p> <p>Practice Note 10: <i>Audit of financial statements of public sector bodies in the United Kingdom</i> has been developed by the Public Audit Forum (ie the four UK audit agencies) through a robust consultation process and provides key guidance.</p>
<p>Q18. Do audit firms allocate sufficient resources to deliver high quality and timely audits? How is consistency and quality maintained in external audit</p>	<p>In our response to question 16 we have noted that we are aware that a substantial number (43%) of local authority audits did not meet the statutory date for the publication of the financial statements at the end of July. This compared to 13% in the previous year and see</p>

Reference/Question	Comment or Response
<p>work? To what extent is there consistency in audit teams year on year? What more can be done to ensure consistency between firms?</p>	<p>also the statistics from the latest Audit Contract Monitoring Report cited in question 16. Information from PSAA indicates that the two most concerning reasons for this are:</p> <ul style="list-style-type: none"> • lack of appropriately skilled auditors • the standard and timeliness of draft accounts, and/or associated deficiencies in working papers. <p>We are concerned about both of these issues and have provided support to local authorities on the latter. Streamlining the Accounts a CIPFA publication from June 2019, not only focuses on the streamlining of local authority financial statements but discusses the planning process for closure of accounts. We are also in the early stages of planning for updating the publication 'Early Closing Time', which will assist local authorities with these issues, though CIPFA would note that the quality of working papers is not an issue that has been substantially raised with us.</p> <p>We are not aware that the PSAA has published any quality monitoring reports under the current regime. We would note with concern that the last report rated all firms as 'Amber' except Mazars which was rated 'Green' though we have read the latest contract monitoring reports with interest.</p> <p>CIPFA is of the view that the issue of audit quality and resources could at least in part be resolved by a new separate regulatory body (as suggested in the Kingman Review – see question 15) which would need to focus on:</p> <ul style="list-style-type: none"> • the quality, skills and knowledge base of appointed auditors • the quality of the audit where appropriate monitoring consistency in approach and understanding • an approach that at least maintains but preferably enhances an audit quality review process to ensure compliance with both auditing and professional standards • the resources are available to support the audit throughout the year but also at peak times.

Reference/Question	Comment or Response
<p>Q19. To what extent are senior audit staff, particularly the responsible individual signing the audit certificate, visibly involved in audit work? Who do senior audit staff meet with?</p>	<p>No comment.</p>
<p>Q20. Should external auditors consider financial resilience as a key factor when designing their VfM work programme? If so, what factors do they/should they consider as indicative of a lack of financial resilience?</p>	<p>CIPFA is of the view that financial resilience (as a component of financial sustainability) is vital during this period of prolonged reductions of resources. In practical terms we have found that in our work on financial resilience, typical symptoms of problems in this area are:</p> <ul style="list-style-type: none"> • reserve depletion • short planning horizons • shortfalls in savings planning • unplanned overspends • lack of strategic direction. <p>Strong financial management is an essential part of ensuring public sector finances are sustainable. CIPFA's new Financial Management Code (FM Code) published in October 2019 establishes standards for financial management to provide assurance that authorities are managing resources effectively. The standards are structured around six principles and cover:</p> <ul style="list-style-type: none"> • the responsibilities of the chief finance officer and leadership team • governance and financial management style • long to medium-term financial management

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> • the annual budget • stakeholder engagement and business plans • monitoring financial performance • external financial reporting. <p>We would, however, consider the following important when value for money is being assessed:</p> <ul style="list-style-type: none"> • effective leadership • strategic vision, planning and direction (ie a clear line of sight) • management and maintenance of the outcomes for service users • governance on a strategic, financial and operating level • commitment to sustainability. <p>As referred to previously the NAO is currently progressing Stage 2 of its consultation on revising the Code of Practice for Local Audit in England.</p> <p>CIPFA's response to the Stage 1 consultation set out our view that the current VfM reporting is problematic in a variety of respects, and specifically suggested that it would be more effective to specifically report on financial sustainability and governance.</p> <p>The Stage 2 consultation on the NAO Code of Practice takes forward these comments. In CIPFA's response to that consultation we explained that we were broadly content with the proposals, subject to the development of appropriate detailed guidance to support them.</p>

Reference/Question	Comment or Response
<p>Q21. Does the Code of Audit Practice provide enough guidance on how much work needs to be done to support the VfM opinion? If not, what should it cover?</p>	<p>We would comment that the problem is not so much that there is insufficient guidance. The focus of the work needs to be changed, and this will require different guidance.</p> <p>Our response to the Stage 1 consultation on the NAO Code of Practice set out our view that the current VfM reporting is problematic in a variety of respects. The Stage 2 consultation takes forward these comments. In CIPFA's response to that consultation we explained that we were broadly content with the proposals, subject to the development of appropriate detailed guidance to support them.</p>
<p>Q22. Do auditing standards provide appropriate guidance on quality standards for VfM audits? If not, is guidance needed and should it be included in the Code of Audit Practice or elsewhere?</p>	<p>International Standards on Auditing (UK) (ISAs (UK)) and related guidance are designed to support audit quality, but they are focused on the audit of financial statements and information published with the financial statements. They are not designed to cover VfM.</p> <p>However, many of the principles in relation to planning the audit, collecting evidence, documenting audit work and making judgements are directly applicable.</p> <p>CIPFA has not identified a particular issue in how the current audit arrangements work in this regard, and concerns in this area mainly reflected on whether those involved had sufficient sector specific knowledge and skills.</p> <p>However, when the NAO refreshes its guidance after completion of its Stage 2 consultation on the Code of Audit Practice, it would be beneficial to consider whether the revised technical requirements for VfM work need to be reinforced by guidance that supports the audit quality management process, even if this simply codifies an approach analogous to that used for the financial statements audit.</p>
<p>Q23. What is the current relationship between external and internal audit? How should that relationship be developed to add most value to local authorities and local residents?</p>	<p>CIPFA's feedback from heads of internal audit in the sector is that there is much less contact between external audit and internal audit than in the past. We believe that this is a result of both the different delivery model for local audit and the reduced resource base of external audit.</p> <p>Our view is that quality of relationships between external and internal audit varies from organisation to organisation. However, there appears to be less attention paid to the work</p>

Reference/Question	Comment or Response
	<p>of internal audit by external audit. While auditing standards mean that it is unlikely that external audit would seek to rely on the work of internal audit to support the financial statements audit, there are opportunities for greater engagement to inform the VfM audit work.</p> <p>Internal auditors in both health and local government sectors work according to the Public Sector Internal Audit Standards. The standards require that the chief audit executive should have a clear understanding of the scope, objectives and results of the work performed by other providers of assurance.</p> <p>It is also very important that the audit committee has sight of and understands the full framework of assurance that is available to it so that it is best placed to engage effectively with both external auditors and internal auditors.</p> <p>The CIPFA Statement on the Role of the Head of Internal Audit (2019) calls on public bodies to establish an internal accountability and assurance framework that includes how internal audit works with other providers of assurance.</p>
<p>Q24. What should happen when a regulator finds that a local authority audit has not met quality standards? Where should the balance between ensuring effective enforcement action against auditors and maintaining participants in the audit market lie?</p>	<p>There are a variety of contractual, legal and other remedies available to the procurer of audit services and the regulator.</p> <p>The appropriate remedial or enforcement action will depend on the circumstances of the case, and the extent to which the fault lies with the audit firm, specific individuals or external factors.</p> <p>Obviously, this will be informed by the need to act fairly to all parties, as part of an effective programme of enforcement that acts in the public interest to safeguard the position of local authorities, while recognising that the primary responsibility for managing local authorities rests with elected representatives and local authority leadership teams. This will in turn be informed by what can reasonably be expected of auditors in the context of fee levels and the wider market for public sector audit services.</p>

Reference/Question	Comment or Response
Chapter 6: Auditor Reporting	
<p>Q25. Do you think that the format of the VfM audit opinion provides useful information? If not what would you like it to cover?</p>	<p>As referred to previously the NAO is currently progressing Stage 2 of its consultation on revising the Code of Practice for Local Audit in England.</p> <p>CIPFA's response to the Stage 1 consultation set out our view that the current VfM reporting is problematic in a variety of respects, including that the binary opinion and other reporting did not provide useful information.</p> <p>The Stage 2 consultation on the NAO Code of Practice takes forward these comments with proposals for clearer reporting through commentary and recommendations. CIPFA is broadly content with the proposals, subject to the development of appropriate detailed guidance to support them.</p>
<p>Q26. Do you think the VfM opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate?</p>	<p>The judgement of an inspectorate that a major service area is inadequate is a significant matter that should be considered seriously by the auditors. In particular they should consider the extent to which the governance arrangements and financial planning and management have played a part in the service failure.</p> <p>The proposed Code of Audit Practice will no longer produce a binary opinion, but CIPFA would expect that inspectorate findings would be included in the commentary on VfM. It will be important for the auditor to make clear what wider implications, if any, the inspectorate's judgement may have for the assessment of governance arrangements, financial sustainability and VfM.</p>
<p>Q27. Do you think that the VfM opinion is presented at the right point in a local authority's annual financial management and budgeting cycle? If not when do you think it would be most useful?</p>	<p>In answering this question it is important to distinguish between final reporting and other auditor communications during the audit.</p> <p>Currently the VfM opinion is presented at the same time as the conclusion of the audit on the financial statements. This has worked well in some ways, but having all reporting to the same deadline may have contributed to year-end pressures that have delayed completion of the audit. Additionally, the provision of an overall 'opinion' may also have reduced the focus on key issues.</p>

Reference/Question	Comment or Response
	<p>The NAO Stage 2 Consultation on a revised draft Code of Audit Practice proposes that:</p> <ul style="list-style-type: none"> • final VfM reporting will be scheduled for publication in the auditor’s annual report, by 30 September • this will be provided as commentary, which may be more meaningful. <p>The effect of these may be beneficial in reducing the risk of long delays. However, it does delay final reporting on VfM. It is therefore crucial that interim reporting of key matters in relation to VfM is carried out effectively.</p> <p>In discussion with NAO they were clear that the principles section of the draft Code also places additional emphasis on timely reporting. Also that the current Code already requires auditors to report early if there are significant issues arising during the audit.</p> <p>In line with the above, CIPFA is less concerned with the timing of the final report on VfM work, subject to timely reporting on significant matters during the course of the audit.</p>
<p>Q28. Where auditors have identified significant issues, audit certificates and reports have often been delayed? Why do you think this is and can changes be made to the framework to encourage earlier reporting of significant issues?</p>	<p>CIPFA is aware of some significant delays that have resulted from material events such as outstanding legal action involving the authority. While the reason for such a delay is understandable we are of the view that delayed reporting of audit certificates and VfM opinions lessen their impact. We would be keen to see earlier reporting and recommendations so that prompt action is taken and accountability to the public is enhanced.</p> <p>The proposals made in the draft Code of Audit Practice may lead to some improvements as the commentary on VfM may allow greater flexibility in reporting. The principle of timely reporting should also help.</p>
<p>Q29. In your view, what sorts of issues should public interest reports be used to highlight?</p>	<p>Schedule 7 of the Local Audit and Accountability Act 2014 requires local auditors to consider whether to issue a report in the public interest on any matter that comes to their attention in the course of the audit, so that it may be considered in accordance with the requirements of Schedule 7 or brought to the attention of the public.</p>

Reference/Question	Comment or Response
	<p>Schedule 7 of the Act does not define the types of issues that could result in a report in the public interest and it would not be desirable to restrict this power. Public interest reports (PIRs) can therefore be published on any issue or subject matter relevant to a local authority. They can provide information or prompt action from an authority and can be informative (the reports do not have to be negative). These reports could comment on areas of high risk, particularly if the auditor has concerns with any aspect of the financial statements or the financial management or governance of the authority.</p> <p>Alternatively the reports could also be used as a very precise tool to address specific issues in any area, for example, failure of specific internal or financial controls or of a particular project of the authority.</p> <p>In practice the reports are likely to be made where there is a serious issue arising from:</p> <ul style="list-style-type: none"> • a failure of governance, for example acting beyond powers, or failing to establish appropriate governance arrangements • serious lapses of financial control including failures in financial management or financial systems • serious fraud or misconduct • failure to manage and mitigate risks. <p>On balance we consider that it would be advantageous to consider opportunities to promote the use of public interest reports. CIPFA is of the view that the objective of this expansion would be to support local accountability and transparency relating to the financial management of public resources and the current and future provision of services.</p>
<p>Q30. Statistics demonstrate that very few public interest reports and statutory recommendations have been issued. Why do you think this is?</p>	<p>CIPFA understands that very few PIRs have been issued under the new audit regime – since 2015/16 only three PIRs have been issued.</p>

Reference/Question	Comment or Response
<p>Does it indicate an issue with the framework or common behaviours? If you think this is an issue, what can be done to incentivise more frequent and timely reporting of significant issues?</p>	<p>CIPFA would note that during the development of the current regime there was concern that the commercial relationship between the auditor and the local body may be damaged by public interest reports but consider that as 98% of local bodies have opted in for the PSAA collective procurement this is substantially less likely to be the driver for the issue. It is difficult to do anything but speculate, but we would suggest that it might be:</p> <ul style="list-style-type: none"> • a lack of understanding of the use of the powers under the Act • local auditors being wary of the potentially negative impact on the authority. <p>We consider that the Code of Audit Practice might be a useful mechanism to provide more guidance on the powers in the Act but might also promote its use within the audit regime.</p>
<p>Q31. Does a publication summarising the results of local authority audits add value? If so who should publish it and what information would they need to have access to perform this function effectively?</p>	<p>CIPFA is of the view that a report summarising the results of local authority audits does have value:</p> <ul style="list-style-type: none"> • A 'clean' audit opinion on a full IFRS-based set of accounts provides assurance to government, individual government departments and other resource providers on the stewardship and accountability of local authorities and the resources that have been spent. • It should be useful to government departments in their role as regulators to have an overview of significant issues facing local authorities during the audit. • CIPFA/LASAAC will find it useful to understand if there are areas that local authorities have difficulties with in terms of financial reporting or areas of potential non-compliance. • It should provide an overview of the effectiveness of the local audit framework. <p>We are of the view, however, that such a publication could usefully comment on practice and not solely on the outcomes of the audit. It should also report on both principal authorities and smaller bodies.</p>

Reference/Question	Comment or Response
	<p>CIPFA considers that this function should be provided by the body that appoints the auditors as it will provide an overview of the audit processes which have taken place this year.</p>
<p>Chapter 7: The Framework for Responding to Audit Findings</p>	
<p><i>Opening comments</i></p>	<p>CIPFA agrees that there is no statutory guidance on the membership or scope of audit committees. However, CIPFA's Position Statement: <i>Audit Committees in Local Authorities and Police</i> (2018 edition) is freely available to download from the CIPFA website. The Position Statement provides guidance and sets out the key principles that CIPFA recommends audit committees in the sector should adopt including:</p> <ul style="list-style-type: none"> • the purpose of the committee • structure and accountability • core functions • membership • operational matters. <p>The Position Statement is supported by a publication, <i>Audit Committees: Practical Guidance for Local Authorities and Police</i> (2018 edition), which offers more detailed guidance.</p> <p>The call for views refers to the CIPFA survey on audit committees from 2016. Results from the surveys are included in briefings that can be downloaded from the CIPFA website. The survey did ask general questions about the knowledge and skills of committee members in both local authorities and police bodies. The survey identified that the lack of knowledge and skills was the principal barrier to the audit committee being effective amongst local authorities (39% heads of internal audit at local authorities identified this as a barrier). In contrast this was not a significant barrier amongst police audit committees (none of CFOs at Police and Crime Commissioners (PCCs) considered this to be a barrier).</p>

Reference/Question	Comment or Response
	<p>From CIPFA's survey and discussions with stakeholders, CIPFA is aware that most councils do offer some form of training for audit committee members. CIPFA and PSAA provide training and the LGA has plans to offer training in 2020.</p> <p>We are also of the view that a number of other issues should be considered by the Review. These issues are presented at the end of this chapter's responses. They include the results of a survey to stakeholders.</p>
<p>Q32. To whom should external auditors present audit reports and findings; is it the audit committee, to full council or equivalent or another committee? If findings are not presented to full council or equivalent what information (if any) should full council or equivalent receive?</p>	<p>CIPFA considers that this response needs to be considered on the following basis.</p> <p>Councils: The responsibility for responding to the findings of auditors lies ultimately with full council and the auditor's report should be addressed to them. In practice councils will delegate the direct interaction with the auditors to a specific committee. Usually this will be an audit committee or a committee that fulfils the functions of an audit committee alongside other responsibilities (such as scrutiny or standards committees). CIPFA's Position Statement recommends that the audit committee should be directly accountable to full council.</p> <p>Police: Joint audit committees are established to advise both the PCC and chief constable. They have no decision making powers but are able to advise the PCC and chief constable on the findings of the auditors and oversee responses to recommendations. The auditor's reports should be addressed to the PCC and chief constable as appropriate.</p> <p>All local government bodies: The audit committee should have a good understanding of key aspects of local audit, which mean that this is the most appropriate forum for interaction with the auditors. In particular the audit committee should:</p> <ul style="list-style-type: none"> • understand the role of external audit and the ethical and regulatory framework that they operate in • understand how the auditors have been appointed

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> • understand the scope of the audit and planned work for the year • have a good knowledge of the governance, risks and control environment of the organisation, including financial management • understand the financial reporting requirements and key principles of the statements • understand the wider assurance framework of the body, including assurances that come from internal audit • be able to advise or make recommendations on an appropriate response from the organisation to any recommendation made by the auditor. <p>The audit committee should have sufficient knowledge to be able to question the auditors on their findings and recommendations and to discuss proposed actions with the officers responsible.</p> <p>In councils it is important that the committee provides assurance to full council on how effectively they have discharged their responsibilities as a committee and to make full council aware of significant findings, recommendations from the auditor and the planned actions to be taken.</p> <p>To support our response to the call for views CIPFA has asked stakeholders how audit committees operate at the moment and focused on the reporting mechanisms. More detail on their responses is provided in Appendix 2. The results of our survey show that there is room for improvement:</p> <ul style="list-style-type: none"> • 26% said that the committee did not report to full council on its work in relation to external audit • 31% reported to full council by providing the minutes of the meeting • 41% more actively reported their work to full council, for example, providing an annual report.

Reference/Question	Comment or Response
	<p>CIPFA's guidance to audit committees is that they should report regularly to those charged with governance and produce an annual report that demonstrates how the committee has discharged its responsibilities.</p> <p>CIPFA considers that accountability of the audit committee can be strengthened further, particularly in relation to its discharge of its responsibilities in respect of external audit recommendations.</p>
<p>Q33. In your authority, what is the membership of the audit committee (number of members, how many are independent etc) and which officers typically attend?</p>	<p>CIPFA has undertaken a survey of stakeholders and the following summary data may be of use to the Review:</p> <p>Of 110 respondents from English local authorities:</p> <ul style="list-style-type: none"> • the minimum size of the audit committee was 5 • the mean size of the committee was 8.5 • the maximum size of the committee was 17. <p>The maximum number of independent members was 5. From the survey:</p> <ul style="list-style-type: none"> • 67% of councils did not have any co-opted independents on the committee • 19% had one co-opted independent • 14% had between two and five. <p>CIPFA's guidance publication <i>Audit Committees: Practical Guidance for Local Authorities and Police</i> comments that local authority audit committees are usually much larger than those of police or of audit committees in other parts of the public sector. CIPFA has identified a risk that a large committee may find it harder to create the necessary focus.</p>

Reference/Question	Comment or Response
	<p>The results from CIPFA's 2019 survey confirm that council audit committee sizes are large.</p> <p>The 2016 survey showed that heads of internal audit regularly attend the audit committee, alongside a senior representative of the finance team. Other senior officers or chief executives attend less frequently (average attendance of 37% and 24% respectively). 58% of respondents said that the chief executive did not attend the audit committee meetings.</p>
<p>Q34. How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates? What should the external auditors do if recommendations are not being implemented?</p>	<p>CIPFA would expect authorities to have performance management systems in place that would enable them to record and track implementation of recommendations. For internal audit recommendations this might focus on significant recommendations and not all suggested improvements.</p> <p>Where there are significant governance weaknesses and recommendations from auditors or inspectorates these should be identified in the annual governance statement (AGS) and appropriate actions identified, including target dates for completion. Since the 2016 Governance Framework was introduced, authorities should include in their AGS an explanation of the steps taken to address the governance weaknesses identified in the previous year's AGS. This improves the accountability of the authority to its stakeholders.</p> <p>CIPFA also expects audit committees to play an active part in overseeing the successful implementation of agreed action plans and holding managers to account if improvements are not made. The audit committee also plays an important role in the review of the AGS prior to approval.</p> <p>Where external audit recommendations have been agreed but not addressed then this should be formally raised with the authority and discussed at the audit committee. The committee is a non-executive body and police audit committees can only be advisory to the PCC and chief constable so they cannot instruct action to be taken. The committee can make recommendations and hold managers to account. In local authorities audit committee recommendations can be made to the executive or full council.</p> <p>The external auditor should consider whether recommendations that have not been addressed merit escalation to a further level of auditor reporting such as a written recommendation under Schedule 7 of the Local Audit and Accountability Act 2014.</p>

Reference/Question	Comment or Response
<p>Q35. Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports? If so should that responsibility sit with MHCLG, the sector specific oversight body recommended by the Independent Review of the Financial Reporting Council or another body?</p>	<p>In line with the comments made in the call for views we think it would be useful to have a form of escalation process if statutory audit recommendations are made, areas of improvement are recommended via the public interest reports, or if there are modified audit opinions. We consider that depending on the changes in the framework that are made, it would seem appropriate that the responsibility for both the overview and the escalation process sit with the separate regulatory body considered in question 15.</p> <p>In addition to this, we think that it would be useful to have an overview of local authority performance. We note that the other the audit frameworks in the UK provide reports that summarise the position of local authorities using information from the audit process. We recognise, however, that the scale and the number of organisations being audited is very different.</p>
<p><i>Additional comments on the adequacy of audit committee arrangements in local authorities and possible ways of making improvements.</i></p>	<p>In CIPFA's view there are factors that mean that audit committees are less effective than they could be. These views are informed by our engagements with audit committee members directly, and key officers who engage regularly with the committee, primarily heads of internal audit and CFOs. In particular we have drawn on findings from the 2016 survey of local authorities and police and our more focused 2019 survey of councils to identify these barriers and options for change.</p> <p>The key issues that limit the effectiveness of local authority audit committees are:</p> <ul style="list-style-type: none"> • limited knowledge and skills amongst the committee membership • lack of status/low profile of the committee in comparison to other committee roles • ineffective structures, for example, a very large membership; we have previously referred to the size of local authority audit committees using our survey data • combining audit committee functions with those of other committees can result in the dilution of focus on audit matters

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> • the committee may not report directly to full council or may not make specific recommendations for action in response to issues raised with the committee by auditors • some committees have struggled to retain a non-political focus • lack of continuity of membership from one year to the next. Partly this is driven by the electoral cycle and is a particular challenge for those councils holding elections by thirds. But movements between committees can happen at other times as well. Typically audit committee members will be nominated for a term of one year. Whilst they may stay longer it does mean that commitment to gaining knowledge and skills is undermined.
<i>Proposals for improvement</i>	<p>CIPFA considers that improvements could be made to audit committees in the following ways:</p> <ul style="list-style-type: none"> • Making the establishment of an audit committee a statutory requirement would improve the status of the committee and help address the practice of combining the functions of the committee with other matters. • Statutory guidance should be produced to support audit committees and be principles based (ideally based on CIPFA's Position Statement). The guidance should include the following: <ul style="list-style-type: none"> – recommendations on an effective structure, including the size of the committee – support for the non-political nature of the committee – recommendations for the inclusion of co-opted independent members and an option for the chair to be a co-opted independent – include appropriate recommendations on the reporting requirements of the committee to support accountability to decision makers

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> – specifications on core functions and responsibilities. <p>These proposals would ensure greater alignment of local authority practice with arrangements in other parts of the public sector.</p> <p>The key issues for police audit committees are different but may include:</p> <ul style="list-style-type: none"> • the ability to recruit and retain knowledgeable and experienced independent members • the need for guidance to support the working relationships between the committee members and senior staff or PCC or chief constable to ensure that the audit committee is able to add value. <p>We will undertake to update and revise our guidance in the light of any recommendations in this area from the Review.</p> <p>The importance of training should be recognised for both local authority and police audit committees and CIPFA would seek to offer appropriate training for both local authority and police audit committees, building on its existing programmes.</p> <p>CIPFA surveyed heads of internal audit in local authorities to seek their views on making changes to audit committees. The full results are provided separately in Appendix 2 but the following key results show that there is an appetite for change:</p> <ul style="list-style-type: none"> • 94% agreed that the audit committee should be made a statutory requirement. • 68% agreed that all local government audit committees should have a mix of councillors and co-opted independent members (23% disagreed and 9% didn't know). • Where audit committees include co-opted independent members, 50% considered that two or more members would be best, while 31% supported one co-opted member. 7% preferred an even split.

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> 50% of respondents indicated that there should be an option for the chair of the audit committee to be a co-opted independent member, while 17% said the committee chair should be independent. 32% did not want a co-opted independent member as chair.
Chapter 8: The Financial Reporting Framework	
<i>Opening comments</i>	<p>The Review will be aware that CIPFA is concerned that the key messages of local authority financial statements are communicated to their users effectively and is of the view that they are one of the key cornerstones of accountability.</p> <p>CIPFA has supported CIPFA/LASAAC in its projects to produce financial statements that achieve these aims. On the move to IFRS it produced a publication intended to help chief finance officers and other senior staff to present the financial statements to members and other key stakeholders by explaining how the formats can be used to convey key information in these areas and covers the main financial statements. This publication, now entitled Understanding Local Authority Financial Statements, sets out the functions of each of the four primary statements. The two statements relating to financial performance are:</p> <ul style="list-style-type: none"> The comprehensive income and expenditure statement which shows how resources have been generated and expended for services and for the authority as a whole in accordance with International Financial Reporting Standards. The movement in reserves statement, which shows how: <ul style="list-style-type: none"> the authority has generated and expended resources in the year the resourcing position is adjusted under statutory rules to show the funds available to be spent at year-end. <p>It has the same functionality as the consolidated statement of changes in taxpayers' equity.</p> <p>The expenditure and funding analysis is a note to the financial statements which was introduced as part of the <i>Telling the Story</i> review changes to the 2016/17 Code. The</p>

Reference/Question	Comment or Response
	<p>expenditure and funding analysis brings together local authority performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the general fund (including the HRA). CIPFA/LASAAC's discussion papers are currently seeking views on the Expenditure and Funding Analysis and these responses will be considered in terms of future reporting requirements.</p>
<p>Q36. Do local authority accounts allow the user to understand an authority's financial performance and its financial resilience? If not, how could they be revised to be more understandable? What information could be presented to enable users of the accounts to understand whether the financial position of a specific LA is getting better or worse?</p>	<p>Local authority financial statements carry the same information as the private sector and the rest of the public sector. They present the financial performance, position and cash flows of the authority in their main financial statements and the notes that accompany them. They therefore include substantial information on both the income and expenditure of the authority but also on the assets, liabilities and importantly the reserves of the authority, which should be accessible to all users of the financial statements.</p> <p>The financial statements are supported by the reporting requirements of the narrative report. The Code specifies that the narrative report should provide information on the authority, its main objectives and strategies and the principal risks it faces.</p> <p>The 2017/18 Code introduced a new principles-based framework for narrative reporting for local authorities based on the elements of integrated reporting <IR>. This includes sections on risks and opportunities, strategy and resource allocation and performance, all of which should directly address the financial performance and financial position of local authorities (including its financial sustainability and resilience). CIPFA has produced guidance on the production of the narrative report and local authority financial statements, CIPFA's conferences and networks provide regular training and workshops on all aspects of financial reporting and capital finance to support and enhance the skills and capabilities of local authority accounts preparers.</p> <p>We continue to support CIPFA/LASAAC in its aims to ensure that only useful financial information should be included in both the financial statements and the accompanying reports should avoid excessive detail that might obscure the key messages for the primary users of the financial statements.</p> <p>We are also aware that when CIPFA/LASAAC changed the reporting requirements for the narrative report it was keen not to specify explicit disclosures to avoid creating a template</p>

Reference/Question	Comment or Response
	<p>approach for local authorities. Generally therefore the information on financial performance and financial resilience should already be accessible in the financial statements and the narrative report.</p> <p>CIPFA welcomes the Review which raises issues that were included in CIPFA/LASAAC's stakeholder consultative exercises. The responses from these exercises, indicate that like the rest of the public sector (and the private sector) local authority statements are often considered to be too long and too complex.</p> <p>A number of stakeholders in the consultation process have suggested that local authority financial statements (or similar reports that accompany the financial statements) should include specific information on performance and a summary of the financial statements. For example, one commentator said:</p> <p><i>"What would be helpful is if the annual accounts could come with a standardised executive summary which sets out in a clear format how the council has performed in the year, what was the budget, what were the sources and uses of funds, did they overspend, how much did they draw from reserves for revenue funding, what the forecast for budgeting is over the next three years and any issues that have been drawn to [the authority's] attention by the external auditor. A four or five page summary which was standardised for all local authorities would then provide a much simpler basis for benchmarking and comparison between local authorities."</i></p> <p>CIPFA is of the view that a principles-based approach to narrative reporting follows both the general approach in IFRS and the Code (and indeed in all of CIPFA's professional codes) and should be able to meet users' needs. However, following feedback that the statements are complex and that the lay user is not able to access the key messages in the financial statement, it would be opportune to consider the production of a summary of the financial statements.</p> <p>We recommend that the format is specified in the Code and included in the narrative report. We concur with the suggestion of a respondent to the CIPFA/LASAAC discussion papers that this could be specified as a sub-section of the narrative report, which is then easily extracted for alternative use and communication. We recommend that the summary should be included at the front of the narrative report.</p>

Reference/Question	Comment or Response
	<p>A summary of the financial statements should enable users to:</p> <ul style="list-style-type: none"> • understand the financial position and financial performance of the authority and gain appropriate assurances over its the financial sustainability and resilience • have confidence that public resources entrusted in the authority have been used effectively and in accordance with statutory requirements. <p>We would recommend that the summary should be developed following appropriate consultative processes and particularly in consultation with CIPFA/LASAAC.</p> <p>CIPFA is of the view that, subject to stakeholder feedback, a summary of the financial statements should provide:</p> <ul style="list-style-type: none"> • a high level overview and description of the authority • a focus on financial performance, sustainability and resilience, including, for example: <ul style="list-style-type: none"> – performance of budgets, particularly service budgets, against outturn – levels of reserves including a commentary on the adequacy of reserves – the council tax position – any key financial risks – summary performance information including an overview of the business model – the performance of any major capital grants. • appropriate summaries of the key financial statements that present: <ul style="list-style-type: none"> – significant changes in income and expenditure/assets and liabilities and reserves

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> – any significant changes to statutory reports of performance. • explain in lay terms the difference between the accounting position and the funding position. <p>It would be important that this summary is accessible to users and particularly lay users and that it is not onerous to produce. We propose that a joint working group from CIPFA and CIPFA/LASAAC develops the requirements for the summary. CIPFA will be able to provide supporting guidance including illustrative examples to support local authority accounts preparers and also provide training via its networks and conference programmes.</p> <p>We are of the view that if a summary of the financial statements is included as the front piece to the narrative report this would be covered by the 'consistent with' opinion and therefore be included in an audit assessment. This approach would probably be the most cost effective for local authorities and could be reviewed (in, say, two to three years following its introduction) as the new audit regime is developed.</p> <p>We would note that we have mentioned consideration could be given to the nature of the opinion on the narrative report and the other reports in terms of the assurance provided. We would be happy to discuss this with the Review.</p>
<p>Q37. The UK Government is committed to maintaining IFRS based accounting for the UK public sector. Given this, how would you recommend resolving the mismatch between the accruals and funding basis to improve the understandability of local authority accounts?</p>	<p>Local authority financial statements are produced on the basis of adapted IFRS to fully reflect the information on local authority financial performance, position and cashflows from an economic and resource perspective. CIPFA continues to agree with the UK Government's commitment to IFRS.</p> <p>We have mentioned previously that local authorities are complex organisations; however, the majority of the economic activities they undertake are the same or very similar to the rest of the public and private sector. They employ staff (usually the largest item of expenditure), provide services, operate from premises and earn income, ie the same features of financial reporting as all other reporting entities in the UK. CIPFA and CIPFA/LASAAC recognise that profit is not the key motivator for local authorities but would comment that the current presentation of surplus or deficit on the provision of services in accordance with IFRS (as adapted to reflect local authority circumstances) will accurately</p>

Reference/Question	Comment or Response
	<p>present the financial performance of local authorities and is the reporting equivalent of profit and loss.</p> <p>An important aspect of the use of adapted IFRS is that by using common accounting standards across the public sector the UK Government has the ability to gain a comprehensive overview of the public sector finances. This information is presented in the Whole of Government Accounts.</p> <p>CIPFA recognises that the council tax setting requirement is an important element of local authority financial performance. The local authority financing regime is not aligned to economic performance. However, it is seen as an important part of the accountability framework for an authority's local population. The impact of taxation decisions should be reported clearly and be able to be understood by the users of local authority financial statements.</p> <p>Our opening comments to our responses for this chapter establish that the current framework presents both the economic position on a resource basis as required by IFRS (as adapted and interpreted for local government circumstances) in the comprehensive income and expenditure statement and for the opening parts of the movement in reserves statement. It then adjusts this resource position to the taxation position establishing the levels of reserves to show the resources available to be used on a funding basis referred to as the general fund balance (including housing rents).</p> <p>The note to the movement in reserves statement and the expenditure and funding analysis note analyse in detail the movements between these two positions (ie the accounting position and the regulatory or funding position). The expenditure and funding analysis also includes the IFRS 8 <i>Operating Segments</i> reporting requirements.</p> <p>Given the feedback from the stakeholder survey regarding the complexity of local authority financial statements, CIPFA/LASAAC's discussion papers seek feedback on potential options for the presentation of the accounting and funding positions.</p> <p>CIPFA is of the view that there are a number of options that meet the objective of being consistent with IFRS adapted or interpreted for local government circumstances. These options that have been informed by CIPFA/LASAAC's work to date include:</p>

Reference/Question	Comment or Response
	<ul style="list-style-type: none"> • Removal of the adjustments in the financial statements with presentation on a negative reserve basis – a mandatory memorandum account would separately present the taxation position for users including the resources available to spend. • Moving the reconciliation from the IFRS GAAP (the accounting position) to taxation (the funding) position to the comprehensive income and expenditure statement. • Focusing in more detail on what 'IFRS adapted for local government circumstances' represents, this could mean more or different adaptations or removal of adaptations instead of the use of statutory adjustments. <p>CIPFA/LASAAC is in the process of considering feedback from its discussion papers. It will be pleased to consider the views of governments and will present options to stakeholders in future consultative processes. It is anticipated that further options or variations on the above options will arise. We consider that the future presentation of local authority performance and financial position must reflect their economic reality.</p>
<p>Q38. Do you think that summary financial information should be reported in the annual report section of the accounts? If so, on what basis and should this information be covered by the financial audit opinion?</p>	<p>Generally local authorities do not produce an annual report though it is recognised that some local authorities might choose to produce these voluntarily.</p> <p>Paragraph 1.4.5 of the Code recommends that where local authorities produce annual reports the financial statements should be included in those reports but notes that where this is not appropriate:</p> <p><i>"the annual report should contain a fair summary of the statement of accounts, with a cross-reference to where and how the full statement of accounts may be obtained."</i></p> <p>Although local authorities are not explicitly required to produce annual reports, the requirements to produce both a narrative report and an annual governance statement alongside the financial statements should arguably provide similar information to that required by annual reports (this with the possible exception of a formal remuneration report).</p>

Reference/Question	Comment or Response
	Our response to question 36 sets out our suggestions for the production of a summary of the financial statements.
<p>Q39. If you think that summary financial information should be reported in the annual report section of the accounts, should it be presented with performance information? If so, what performance information would be of most interest to stakeholders?</p>	<p>Our response to question 36 outlines the approach to the production of a summary of the financial statements and the presentation of performance information.</p> <p>In terms of performance information other than summary financial information, CIPFA considers appropriate summary performance information should be included in the summary of the financial statements. This should include information already in an authority's narrative report ie relevant key performance indicators and an overview of the authority's business model.</p>
<p><i>Other comments on financial reporting</i></p>	<p>The Review may be aware that for some time CIPFA/LASAAC and the CIPFA Pensions Panel have been of the view that local authority pension fund financial statements should not be included in the administering authority's statements of accounts (we would note that they have been removed from the financial statements of local authorities in Scotland and Wales and separate pension fund financial statements are issued). We consider that there is general consensus around this issue as it would reduce the size of administering authority financial statements. CIPFA understands that this issue has not progressed in England as it requires legislative change and would suggest that the Review may wish to consider this as a part of the Review.</p>
	<p>CIPFA would note that in policing although the police and crime commissioner (PCC) procures the audit of the financial statements both for itself and the chief constable, these bodies are separate legal entities and are required to provide separate financial statements that are subsequently consolidated in the PCC's group accounts.</p>
<p>Chapter 9: Other Issues</p>	
<p>Q40. For larger authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner? If</p>	<p>CIPFA is of the view that the inspection process appears to allow local electors appropriate access and clarity in relation to their rights of inspection though as we noted in our response to the consultation on the Accounts and Audit Regulations 2015, we are not clear</p>

Reference/Question	Comment or Response
not, how should the regime be modified?	on the advantages of having a common inspection period. We have received some commentary that this regime can be disproportionately costly for some authorities.
Q41. Is more guidance needed to help auditors assess the impact of significant changes to common business models? If so is this guidance needed to support the financial audit, the VfM audit or both?	<p>We anticipate that auditors are likely to need more guidance on the approach to the audit of changes to common business models. CIPFA is aware that local authorities are becoming involved increasingly in commercial transactions and other approaches to increase returns.</p> <p>The Review will be aware that CIPFA has produced guidance on the issue of commercial investments in properties; Prudential Property Investment was issued in November 2019. This publication will be useful to both auditors and practitioners alike.</p> <p>Participation in partnerships and interest in other entities will need to be accounted for properly in accordance with the Code (which has appropriate guidance for local authorities) but we are of the view that it is as important that local authorities and their stakeholders need to fully understand and manage the different risks that they face. Again this would need to be clearly reported by a local authority's key stakeholders including the primary users of the financial statements.</p> <p>The CIPFA/LASAAC strategic discussion paper included consideration of group arrangements. In particular it was suggested that the current statutory framework was largely created in an era of 'single entity' service delivery structures. It probably did not anticipate such a widespread and varied use of group arrangements for service delivery and resource management. A number of stakeholder responses indicated that a wider discussion, not necessarily limited to financial reporting, on the role and use of group arrangements would be beneficial.</p>
Q42. Is the financial reporting and audit framework for larger category 2 authorities appropriate? If not, what additional information should be subject to audit/assurance and what would be the cost implications of this?	CIPFA is of the view that as larger category 2 bodies are able to follow the reporting arrangements for local authorities and the threshold aligns with companies acts thresholds then it should be appropriate (subject to our other comments on that regime).

Reference/Question	Comment or Response
Q43. For smaller authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner and is the cost of processing and responding to objections proportionate? If not, how should the regime be modified?	CIPFA is of the view that the inspection and objection regime does allow local residents to hold their council to account and is an important aspect of the accountability framework. We are of the view that the costs may be disproportionate, particularly as we have had some feedback from local authorities that there are cost issues with the process. We would suggest that the resource issues relating to the process should be reviewed.

Appendix 1

Redmond Review Extracts from the 2019 Stakeholder Survey Feedback

Chart A – Survey feedback on clarity from the self-identified group accountability for public resources

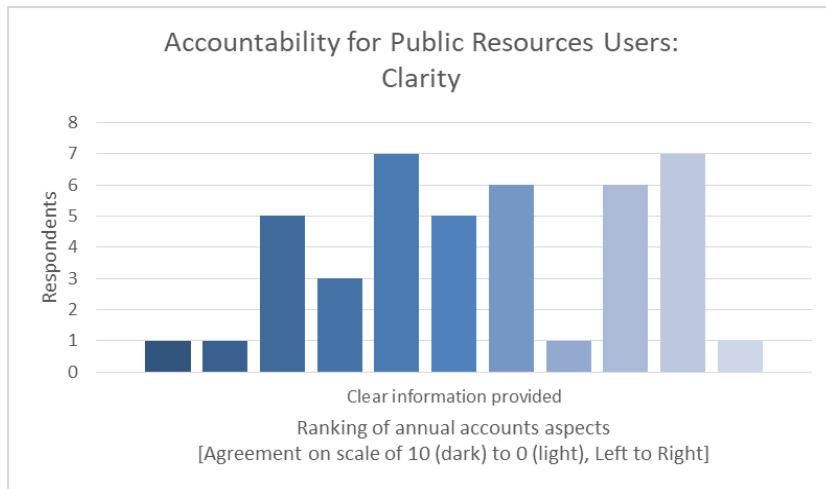


Chart B – Survey feedback on ease of finding relevant information from the self-identified group accountability for public resources

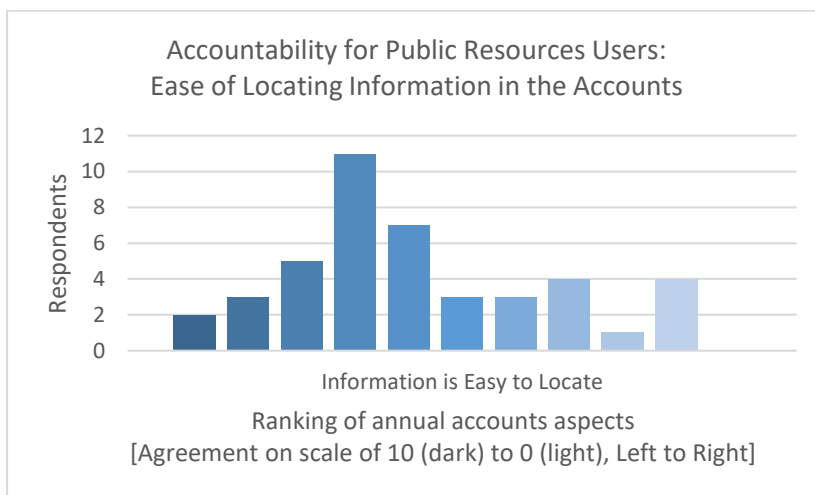
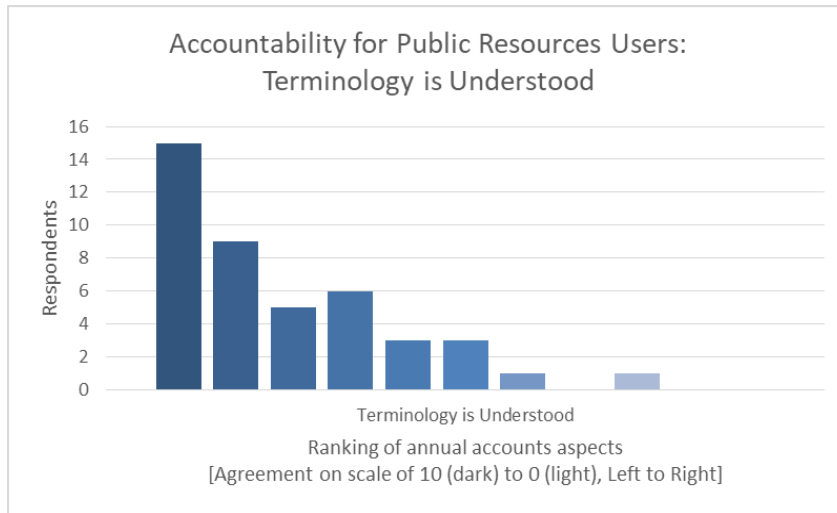


Chart C – Survey feedback on understanding of terminology from the self-identified group accountability for public resources



Appendix 2

Audit Committees, Membership, Effectiveness and Options for Development

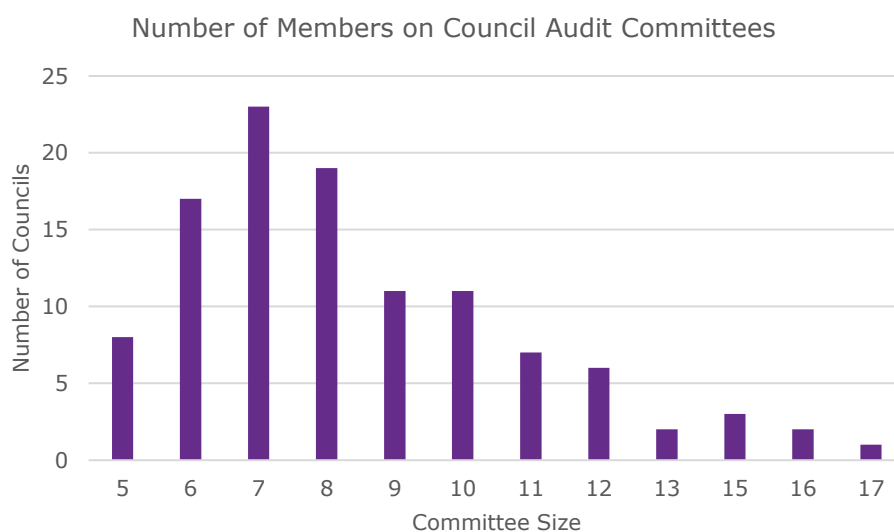
CIPFA Survey of Heads of Internal Audit in English Councils 2019

In October 2019 CIPFA sent surveys to heads of internal audit (HIA) at English councils as part of its research supporting the response to the Redmond Review. We received 110 responses. The breakdown by authority type was as follows.

Total	Combined Authority	County Council	English District	English Metropolitan	English Unitary	London Borough
110	1	10	53	13	21	12

Membership of the audit committee

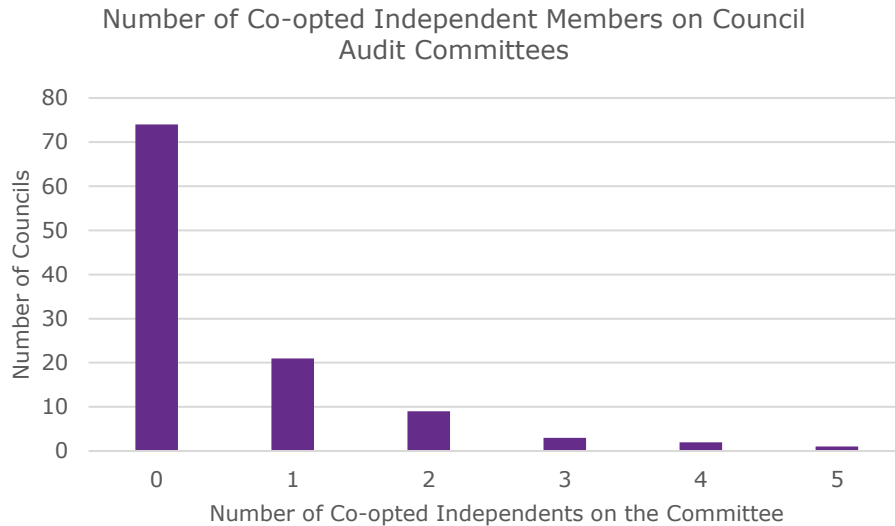
CIPFA asked how many members council audit committees had and whether they had any co-opted independent members. The committee size ranged from five to 17 members and is similar to the results we identified in 2016. The spread is shown in the chart below.



In its guidance, *Audit Committees: Practical Guidance for Local Authorities and Police*, CIPFA notes that it is common practice for audit committees to be less than six members in other sectors but local authority committees tend to be much larger. CIPFA considers that larger committees may find it harder to develop the necessary focus and would like councils with a committee size greater than eight to review their structures.

33% of the respondents had an audit committee that included at least one co-opted independent. This is similar to the results of previous CIPFA surveys. The 2016 survey found that 39% had co-opted independents but that was a UK-wide survey including Welsh authorities that are required to include at least one co-opted independent.

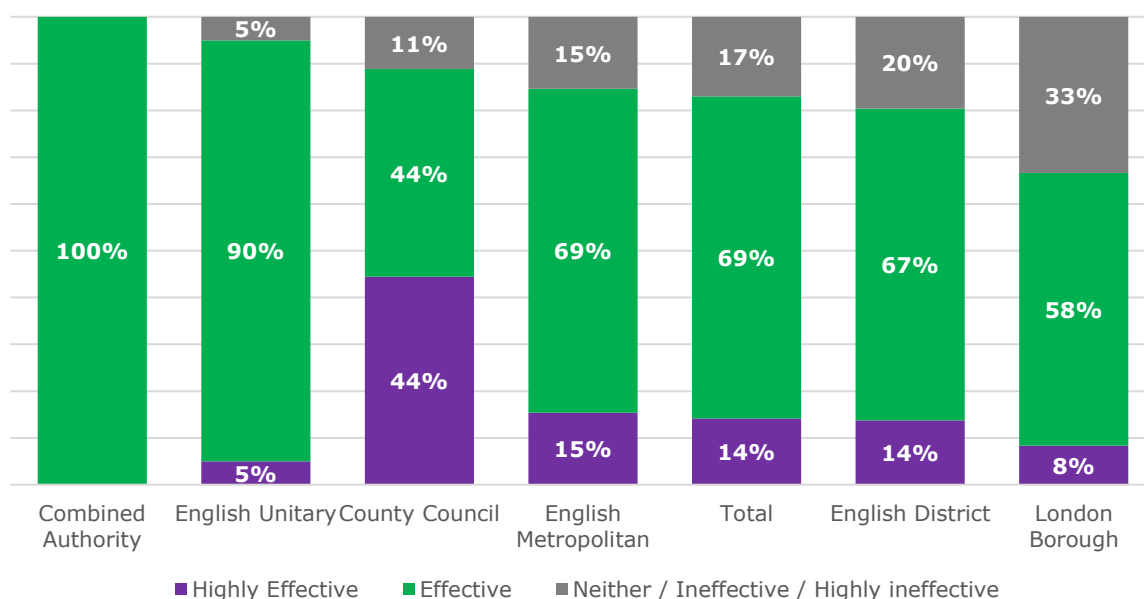
Where councils do include a co-opted independent then a single member is most common. County councils and districts were least likely to have a co-opted independent, with only 20% of counties and 11% of districts doing so. 77% of metropolitans and 67% of London boroughs did have a co-opted independent and 43% of unitary councils also did so. The chart below shows the spread of the number of independents on committees.



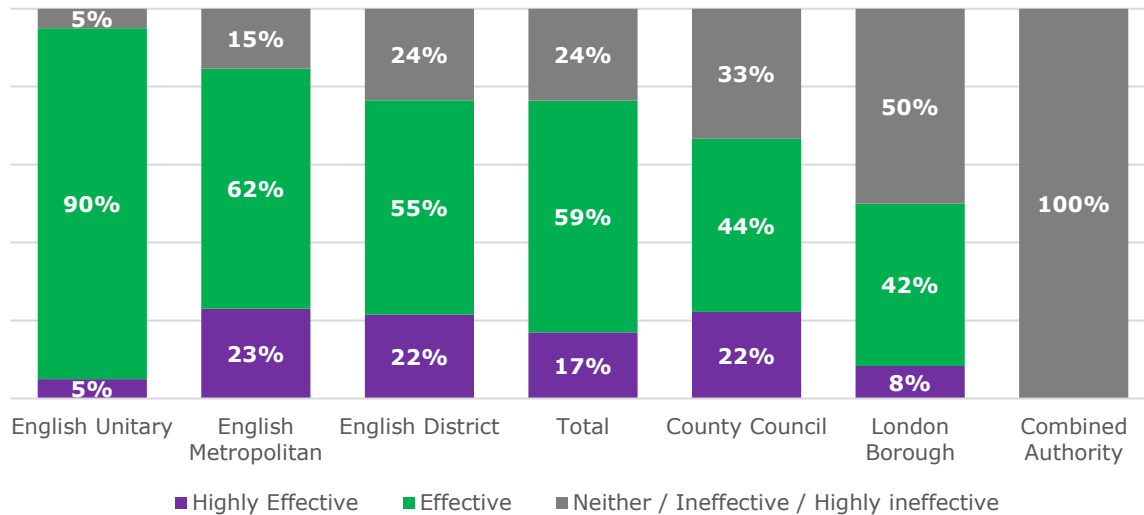
Effectiveness of the audit committee

One of the issues being explored within the Redmond Review is the effectiveness of authorities' arrangements for responding to recommendations from the local auditor. In our survey we asked HIAs how effective their audit committee was in responding to issues raised by the external auditor and also in responding to issues from internal audit. The findings are in the charts below and demonstrate that in the opinion of the HIA the audit committee is more effective in their response to internal audit than external audit.

How effective do you think your audit committee is in responding to issues raised by the internal auditors?



How effective do you think your audit committee is in responding to issues raised by the external auditors?



Overall 17% of committees need to be more effective in their response to issues raised by internal audit and 24% of committees need to be more effective in their response to issues raised by external audit.

Accountability and reporting

In a council 'those charged with governance' is the full council, so the audit committee is an advisory committee supporting the exercise of those responsibilities. We asked if the audit committee reported on its activities to full council. Only 72% did so. We then asked if the audit committee's report to full council included the committee's work on external audit matters. For 31% the reporting to full council took the form of providing the minutes of the meeting, however, the other 41% took additional steps to report to full council on the work of the audit committee. 26% did not report on external audit matters to full council.

CIPFA considers that 'those charged with governance' should be aware of the conclusions and recommendations of external audit and the outcome of the audit committee process so there is scope to improve reporting and accountability from the audit committee.

Making changes to council audit committees

CIPFA has provided good practice guidance to the sector for many years and we know it is widely used and respected. There are some structural issues that are difficult to resolve and may therefore require additional steps. These issues are:

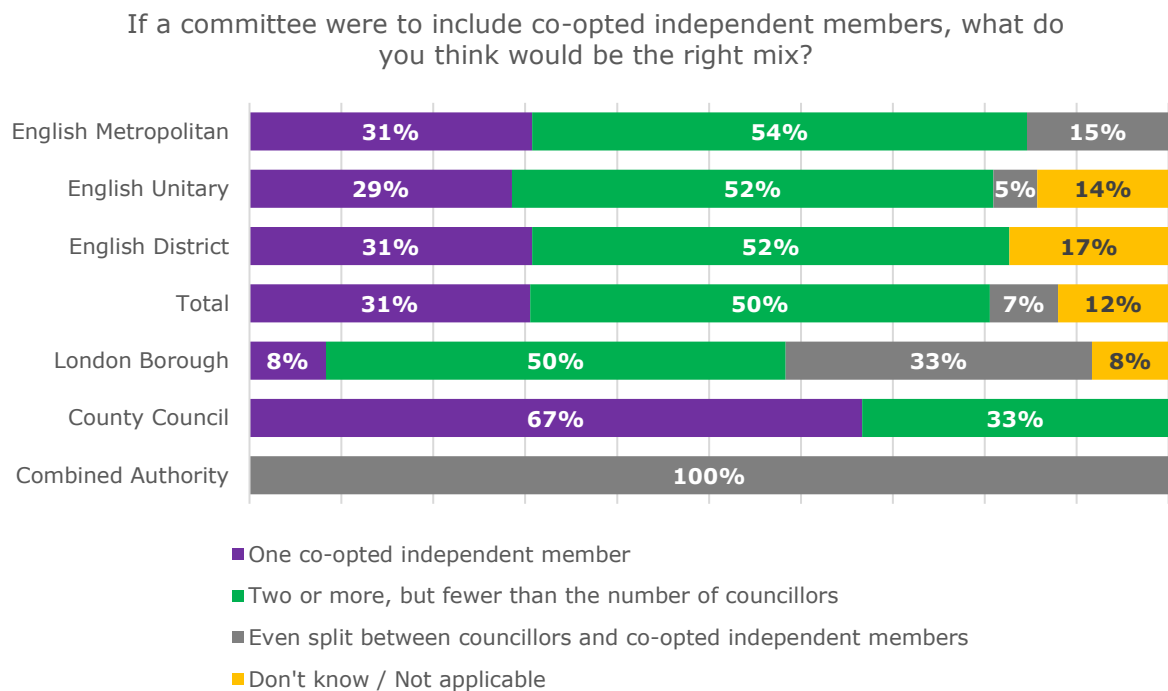
- The low profile/value placed on the audit committee by full council and leading members.
- The difficulty experienced by some councils in finding sufficient knowledgeable and experienced councillors with an interest in being a member of the committee.
- Turnover of committee membership as a result of annual appointments and the electoral cycle.

In the survey CIPFA explored views of HIAs on possible steps that might address these issues.

We asked whether the audit committee should be made a statutory requirement. 94% of HIAs agreed. CIPFA considers that making the committee a statutory requirement will improve its status and importance at councils.

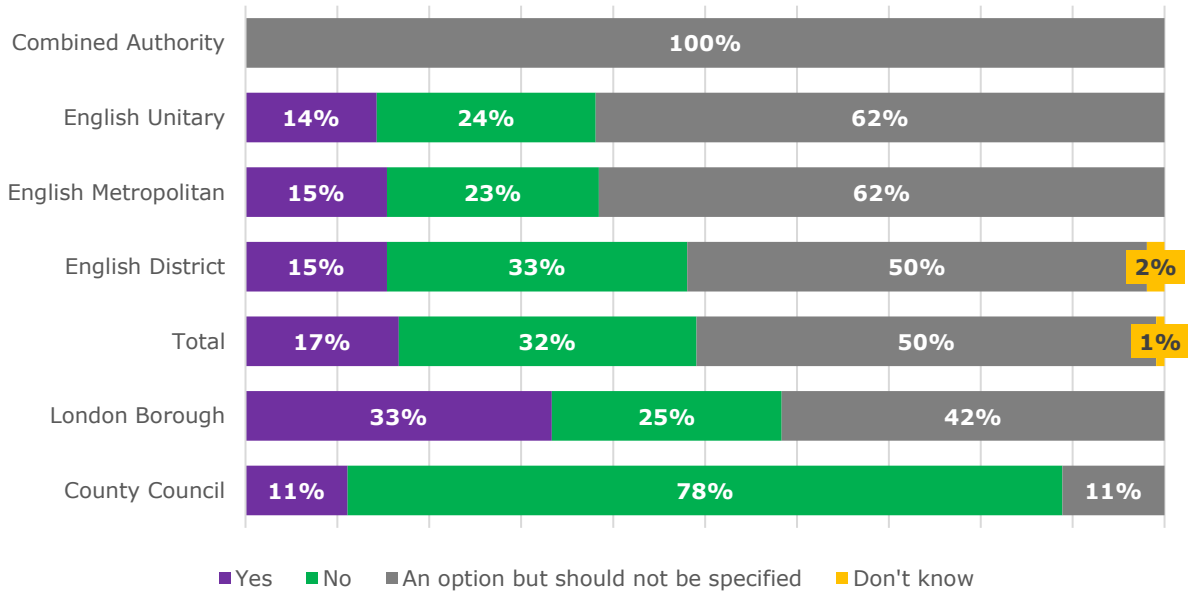
We asked if all local government audit committees should have a mix of councillors and co-opted independent members. 68% said yes, 23% said no and 9% didn't know. CIPFA already recommends that authorities should include co-opted independents on the committee as we consider that it is helpful to bring in additional expertise and reinforce the independence of the committee. Co-opted independents also provide some continuity when there is a significant turnover of committee members, for example following an election.

We also asked if a committee were to include co-opted independent members, what would be the right mix. The chart below shows that the most popular option overall was to have two or more co-opted independents on the committee but that they should be fewer than the number of councillors. County council respondents had a stronger preference for a single member and London borough respondents showed significant support for there to be an even split between councillors and co-opted independents.



We also asked if the chair of the audit committee should be a co-opted independent. 17% said yes, 32% said no and 50% said it should be an option available to the authority but that it should not be specified. The chart below shows the results by authority type. County councils did not support the option of an independent chair.

Do you think the chair of the committee should be a co-opted independent member?



Overall the results show that there is good support amongst HIAs at English councils for statutory guidance to reinforce the status and effectiveness of the audit committee.

The importance of providing support to audit committees

CIPFA’s experience in providing guidance and training to audit committees for local authorities and police means that we are very aware of the need for ongoing support. Statutory guidance will help to address some structural issues and reinforce the status and importance of the committee but will need to be supplemented by specialist training and guidance.

Comments were invited from HIAs in the survey and these highlighted some of the issues that will need to be addressed:

- The ongoing need for training and guidance to committee members.
- The difficulties that some authorities have experienced in attracting good quality people to be a co-opted independent member.