

Local Audit Quality Forum

Comparing and contrasting different models of public audit

London, 18 April 2018

11.15 – 11.50: 20 minutes + 15 minutes Q&A

Delighted to be here – although my current remit as Auditor General doesn't cover local government, I work closely with the Accounts Commission, which is responsible for the audit of local authorities in Scotland. And I started in career in local government, training as an accountant with Wolverhampton MBC and then working for District Audit and the Audit Commission before moving to Scotland twenty years ago.

No surprise, then, that I'm a strong believer in the contribution that effective public audit can make to local government.

It's no secret that auditors aren't always popular, and there are obviously tensions from time to time between auditors and the bodies they audit, but we shouldn't let that obscure the value of audit to local government and its stakeholders. [SLIDE 2]

There are three important elements of that value:

- Assurance that public money is being spent properly
- Insight into the challenges and risks that councils are facing
- Help with innovation and improvement in managing those risks

These things would be important at any time, but they're even more important given the financial and demographic pressures that all of you are grappling with every day, and which were graphically illustrated by the NAO in its report last month.

So how are they affected by the significant changes we've seen in public audit in England since 2014? They really are significant...

- The Local Audit and Accountability Act 2014 abolished the Audit Commission, with local authorities permitted to appoint their own auditors once the existing contracts have expired
- New role for the NAO
- PSAA took on existing Audit Commission contracts in 2015, and was then recognised by the Secretary of State for Communities and Local Government as 'appointing person' in 2016
- 98% of relevant local government bodies have opted in
- New contracts come into effect this autumn, with significant fee reductions and a renewed focus on audit quality

All of this means that public audit is now markedly different in each of the nations of the UK.

So what are the strengths of the new system of public audit in England?

[SLIDE 3]

- Scale – the number of local authorities opting in to the PSAA scheme means there is almost complete coverage of English local government bodies
- Costs are lower, due to the advantages of scale and also some of the limits of the English system of public audit
- The NAO's Code, together with PSAA's guidance, means there's still a common approach across the country
- PSAA's role means there's still a large measure of independence – this helps provide assurance to local authorities and their stakeholders

What about the risks?

- The system is complex – NAO, PSAA, FRC and recognised supervisory bodies (ICAEW/ICAS) all have roles to play, and it's fair to say there's still some development underway
- It's fragmented – the other UK nations each have a single audit agency that covers all local audit, effectively combining the previous roles of the NAO and the Audit Commission, whereas there is no single agency in England. That has a couple of implications:
 - NHS bodies now appoint their own auditors, making it more difficult to see the whole picture, and particularly in looking at

what happens across boundaries such as health and social care.

c.f. Scotland, Wales, Northern Ireland

- All three nations use private firms, but in England there is now no local public audit service, and no direct link between local auditors and the national audit agency. This may limit the potential for auditors to provide an early warning system when issues start to emerge at one or more authorities.
 - Examples might include treasury management, as bodies are encouraged by brokers to expand their portfolios and chase better returns. Remember interest rate swaps, LOBOs?
- What about opportunities to learn from one another in the absence of a single body like the Audit Commission/Audit Scotland/WAO?
 - Understanding and managing financial pressures – the NAO's recent report covers this territory, but its role is necessarily high level, focusing on the impact of central government action, rather than on what's happening in individual local authorities
 - Innovation/improvement – identifying good practice?

- Coverage of the Code. All three provide an opinion on the financial statements, and auditors have similar statutory powers, but the wider scope dimensions differ:
 - England
 - VFM conclusion – do local bodies have proper arrangements for securing VFM?
 - Scotland
 - Now requires auditors to reach conclusions on the effectiveness of:
 - Financial management
 - Financial sustainability
 - Governance and transparency
 - Value for money
 - Best Value audits carried out in each council over a 5 year cycle
 - Wales
 - Improvement audits
 - New responsibilities under Wellbeing of Future Generations Act – sustainable development lens

So some significant differences and some opportunities and some risks that we all need to manage.

[SLIDE 4]

We in PSAA believe the LAQF can help to maximise the benefits of the English system, while addressing some of the risks:

- Protecting and enhancing audit quality – we know it matters to you, and recognise our role in supporting the key players in the supply chain (auditors, audit committees), and liaising with others (NAO, FRC). The LAQF is a key part of this. It's particularly important at a time when firms are being openly criticised for failures such as Carillion; DoFs and Audit Committees can take comfort from PSAA's role in overseeing quality and compliance.
- Creating opportunities to learn from each other and contributing to the improvement agenda. The audit committee has a privileged position in that it understands the organisation but is not part of the decision making structure (members of full Council but not in Cabinet) – how can audit committees contribute?
 - Opportunities to learn from experience when things go wrong
 - Explore what could have been done differently and what role audit committees might have played in supporting

more critical/transparent appraisal of risks such as budget deficits, holding officers and other members to account where necessary as part of the checks and balances within the democratic process.

- More positively, opportunities to learn from good practice
 - How local authorities (individually and in partnership) have tackled financial challenges – sustainability, demographic pressures, changing expectations, service transformation
- Scope to shape the development agenda for audit committees and their members – what makes for an effective audit committee? How do effective chairs and members of the committee work together and with their auditors?
- Over time, if the LAQF is successful, it can provide a great example of local government bodies working together, and build a credible voice for local government with both central government and citizens.