

Transcription of PSAA's Local Audit Quality Forum Webinar with Sir Tony Redmond held on 1 October 2020

Julie: Good morning, everyone. It's ten o'clock, so we'll get started. Just before we start, I'd like to inform you that we will be recording the first part of this webinar, which will be available from the PSAA website within a few days, the benefit of those colleagues unable to join us today. Without further delay, I'll hand over to Steve Freer, PSAA's chairman.

Steve Freer: Thanks, Julie. Morning, everyone. Welcome to this important webinar. I think I should say right up front, this is the first time that we've run a local audit quality forum event in this format using modern technology, so all our fingers are crossed that this is going to work smoothly. I'm delighted to say that we've got 250 delegates who've signed up for this session, including 99 chairs and members of local audit committees.

One of the aims of the forum is to achieve a genuinely national debate about local audit matters and to reach out and engage with audit committees so those numbers are tremendously encouraging for us. As Julie explained, we're going to record the session so that an even more and even larger audience can listen in after the live event. The event is going to be divided into two segments.

In a moment, I'll introduce Sir Tony Redmond who will speak about the findings and recommendations of his recent input report. Tony is then happy to engage with us and take questions until shortly after he 11:00 when he has to leave us for another engagement. We've had a slight problem with Sir Tony's line this morning. We're going to persist with it initially, and he's going to join us on video using the Zoom facility. Our fallback, if those difficulties recur, is that he will dial in, so there might just be a slight delay if we have to change mode as it were.

After Sir Tony's departure, we've got an expert panel lined up who will take some further questions and share some of their thoughts about the report and its recommended way forward until we conclude it at midday. I'll introduce the panel members later on. We've already had a good number of questions submitted by delegates before the event, but we're very happy to take more questions this morning and we'll try to squeeze in as many as possible. If you'd like to submit a question, please do so via the Q&A facility on Zoom.

I'm going to keep my camera off to take the strain off of the line and also so that I can keep a close eye on the questions and ensure that we put a really good selection to both Sir Tony and the panel. Let's get started. Let me just briefly introduce Sir Tony who is I'm sure very well known to many of you as a leading former director of finance and chief executive in local government, a very prominent figure within CIPFA, indeed a past president of the institute, and of course, a former local ombudsman of England.

Tony, as you all know, was appointed by the Secretary of State to review and to try and find solutions to some of the standout problems and challenges in both financial

reporting and auditing in local government and police bodies. His report was published on the 8th of September. I'm delighted that he's here this morning to discuss it with us, so welcome, Tony. The floor is yours.

Sir Tony Redmond: Thank you very much indeed, Steve, and thank you very much for the opportunity to talk to you all this morning. I do hope the technology holds in for the rest of the session. Let me say that I'd like to really talk to you in three parts. One is to just review objectives and responses that I've received, secondly, the key findings, and finally, to talk about the recommendations that I've actually made as a result of the review I've undertaken. I will talk very briefly about some of the issues about implementation, which during the course of the webinars I've undertaken so far, it's become apparent that people are very keen to know what happens next.

In terms of review objectives, they are two in principle. First is to look at the effectiveness and accountability of local audits and the second is to look at the transparency and intelligibility of financial reporting in local authorities. The responses I've received have been somewhat 160 and the respective call for views, and alongside that, I've conducted, conversations with different stakeholders over a period of the last 12 months numbering nearly 100.

Moving on to the key findings, so the key findings in terms of three parts. First of all, audit performance and outcomes in the market, secondly, governance, and finally, financial reporting. I'll start with audit performance and outcomes. I must say at the outset that 40% of audits were not completed in the year for 2018/19. Secondly, I've had much information supplied to me by various parties about the fact that audits appear to be under-resourced.

Thirdly, there is a question alongside that as to whether or not some of the auditors who have been engaged in the audits of local authorities have a full appreciation and understanding of the nature of local government finance and accounting. Not just in a technical sense but in a wider understanding of that subject. There is therefore some questions being raised by a number of the people who fed back to me about the quality of the audit that actually is being delivered to local authorities.

One area that's particularly been drawn to my attention by CFOs is whether or not there's been an adequate and robust test of the financial resilience and sustainability within the local authority. Also, in terms of value for money, the binary test that's applied supplied by the auditors on a system's basis doesn't really add a great deal of value in the view of many local authorities.

It's also worth saying that when I looked through the process that was actually being undertaken in respect of local audit and listening to the feedback I received, there is no oversight or regulation of local audit. There are many participants in the field, including indeed PSAA, who perform their roles in accordance with what's expected of them, but there's no coordination or coherence that brings all of that together. They are the principal findings relating to audit performance outcomes in the market.

I'd now like to move on to governance. In terms of governance, the first thing I said is picking up was that there was a limited engagement between key audit partners and statutory officers. That varies, as they say, from one local authority to another, but in some cases, it was very limited. Secondly, there is a question that's been raised with

me by a number of people about the capacity of the audit committee to be able to fulfill its role. Not in the sense that they don't attend and take seriously the agendas before them, but more about whether some of the technical information that's actually been supplied to them is readily understood.

Thirdly, there is a matter relating to the interface between external and internal audits. Internal audit is not used by external auditors for assurance purposes due to compliance with auditing standards which is expected in line with the audit code of practice. That meant that internal audit is often not involved in any proper dialogue with external audits. The inspectorates do have some contact in some local authorities with external audit but it is again variable. It isn't noticeable that therefore the things like Ofsted, CQC, and HMICFRS reports may not actually be linked in any way to what the auditors' findings may be within a local authority.

Finally, really, under the governance area is about what the public's awareness is of actual audit work, and the outcomes of that work, and what they need to understand and know in terms of assurance. That is governance. The next area is financial reporting, and with regard to financial reporting, there's almost unanimous view that the statutory accounts as currently presented are impenetrable to the public, and so I'm asked given my full responsibility, look at transparency to think about what can be done to address that.

I've also had quite a lot of pushback from local authority treasurers about the fact that they believe that some of the audit work that's undertaken in respect of the statutory accounts is unnecessary, bearing in mind things like the property and pension fund valuations do not need that sort of attention. Also looking at the question of transparency, I must acknowledge that there are narrative statements in place within local government, but the actual content of those varies quite a bit and there is no level of consistency in the way they're represented to the public. They are the areas that I've actually looked at in terms of findings in front of you.

I'd now like to move on to recommendations and I'll, again, do them in the three parts that I've just described to you. In terms of audit performance and outcomes, my conclusion is that given the lack of coordination and coherence in the whole audit function, I'm proposing a single new body called the Office of Local Audit Regulation. That regulatory body would actually have support of a non-executive advisory panel. It would comprise around 30 staff, I've done an assessment to see how that would work in practice, and cost in the region of £5 million per annum.

That would be the body that would bring together all the functions that currently exist straight ranging from procurement, through the code of practice, throughout the site of my management of cost tracks, and then accountability and regulation. I'm proposing a liaison committee that would be chaired by the MHCLG, which would comprise all the key stakeholders. That would provide a direct link to the regulator. I'm proposing that that meeting should take place once a quarter. I think that's particularly important once the new regulator will be in place to have that level of dialogue and engagement.

A fee structure, given I said that many think that audit is under-resourcing, I think should be reviewed. I also believe that the training of auditors might be looked at, given that the findings are that I've actually picked up some of them do not demonstrate the level of understanding of local government finance and accounting

that's necessary to fulfill the role adequately and effectively. Audit training should be put in place. I also think that in terms of the market itself, that the eligibility criteria should be subject to another review. Certainly, theoretically in the past, but I think that warrants further attention.

I'm suggesting that the new body also has a sanctions power and that would be where significant underperformance in audit is evident and demonstrated. That needs to be addressed. Therefore, the OLAR or the Office for Local Audit Regulation would actually address that. I proposed that the inspectorates and the external auditors have a dialogue regarding their respective responsibilities that they're discharging and the reports that they might be producing and the findings they're communicating to the local authority. So there's a greater degree in coordination in that particular aspect too.

I do support the changes that the NAO have made to the code of practice, particularly relating to value for money and financial resilience and sustainability. They're my key recommendations relating to audit performance, outcomes, oversights, and regulation. I'll move on to governance. In governance, I'm suggesting that the local council should ensure there is proper support in terms of training for each and every member of the audit committee.

I want to emphasize this is not to suggest that the members of the audit committee are not seeking to fulfill their own effective way, but given the technical nature and complexity of local authority finance and accounting, it does seem to me that a standard approach should be training afforded to members of audit committees. I also think that there's some benefits in having an independent member for each audit committee with the expertise, technical understanding, and knowledge to enable the audit committee to be supported in that way.

I further argue that the statutory officers should have a dialogue with the key audit partners. That should be established as a requirement rather than something that may not happen. That engagement certainly ensures that each is actually in communication with the other, a key concerns or risks that need to be addressed. I think an internal audit plays a very important role within the local authority and it's important that that work is actually recognized and understood by external audits. I'm suggesting that there'd be proper engagement between the two, the interface between the two to ensure that where internal audit can provide support and assurance, it does so.

I think the accounting staff of local government also might look to be trained again. One of the criticisms that's been leveled at them by some of the audits is that they don't all seem to have a full appreciation of the technical nature of the work that they're undertaking and that they need support as well. Some training there to support the accounting staff. Alongside that issue of training, it seems to me, and it certainly comes through to some extent in the responses I've had, there should be an opportunity here to provide support to you, Section 151 officers.

I'm proposing that there'd be an induction program available to each and every new chief financial officer as they take up the role, rather than actually learning on the job, so to speak. Finally, under governance, transparency is a key part of my consideration, and I'm suggesting that the full council receive an annual audit report. One that will actually be presented after the completion report by auditors. Here, the

opportunity for the external audit report directed for council and to ensure that not only the report on the audit completion is actually recorded and represented to council but also any other issues that the auditor may wish to register at that point in time. That's governance.

Finally, financial reporting. A simplified statement of service information costs is certainly my proposal. That would not be trying to revisit the statutory accounts, which are highly complex and actually are international financial reporting standards-based, and also have to comply with the whole of government accounts. There is a limited opportunity to turn those into a readily understood set of financial information statements. I'm suggesting a simplified statement of service information and costs, which can be linked back to what the counselor said it would do in terms of spending through its budget and the council tax level.

I think there is opportunity for local government to test the standard statements. I've included one in the annex to my report for each class of authority. I'm suggesting that this consultation with local government take place between now and the end of December to see whether the draft that I've proposed does actually meet the requirements as they see them as well. That would then be used as a test space for the year 2021 accounts but not subject to audit but following year would actually be so applied.

The only other thing I would say about statutory accounts is I actually proposing the CIPFA/LASAAC look at the accounts to see if they can be improved. I'm asking also to pay particular attention to the points that have been raised by CFOs about property in pension funds, where the valuations seem to be unnecessarily involved. They're my recommendations.

Now people have asked me, as I say, about the implementation. I just wanted to very quickly tell you some of the things that I think are quite important in terms of what happens next. You will appreciate the new body will require primary legislation and be an NDPB and it would certainly, given the proposals that I'm making, require primary legislation.

There are obviously areas that can be looked at in the meantime, whether local authorities want to contemplate looking at some of the training issues that I mentioned, the importance of independent members, whether or not they also want to think about the guidance to finance and accounting staff, and also engaging between statutory offices and key audit partners.

The NAO has already reviewed its code of practice, and that code of audit practice hopefully will be in place in not too distant future in terms of financial resilience tests and the VFM audits. The MHCLG will obviously have to look at some of the areas I've proposed in terms of the liaison committee and also the sanctions regime and whether or not the audit completion report date should be changed. I didn't actually touch on this area. It is an important issue.

Because of the delay in the finalization of audits, I am advocating that the 31st of July does not work and that the 30th of September should be put in place. That deadline, of course, would need to be considered by MHCLG. The audit firms themselves will have to reflect, I think, on the way in which they make their proposals for audits of local authorities. They will have to also think about whether or not the

training should be put in place to support the teams that they have and whether or not they look again at the way in which they deal with VFM and financial resilience.

In terms of CIPFA, CIPFA would have a role to play clearly in the training requirements that I've identified, and also, there is the question of the standardized statements of service information and costs where they would be an important player in the consultation arrangements. Also, CIPFA/LASAAC, looking for IFRS based accounts. The other area I haven't covered is PSAA. I know PSAA is already looking at some areas that I'm discussing in this report and seeking to pay attention to some of the issues around the audit market that might be a concern at this point in time. I've very quickly run through those implementation points and I'm very happy to answer any questions, Steve, that the delegates may have.

Steve: Thanks, Tony. The line's working so far, so that's a great relief to take note of. Let's get the questions, the Q&A up and running. They're flowing in nicely from delegates, which is really helpful as well. Let's talk about some supply of future auditors and the question which says, "Where do you see the future supply of quality audit personnel who are knowledgeable in local governments coming from, given that you've identified that it's not an attractive career option for auditors?"

Sir Tony: I think the first thing to say is that I fully understand the concern that's been expressed about the gradual reduction in the ex-DA service staff being engaged within the various audit firms. One recognizes the depletion in that respect. It's clearly having an impact on the knowledge and understanding and awareness and appreciation of local government finance and accounting within the audit firms. My proposition is that as long as the audits are properly resourced, I would strongly argue for training to be instituted to enable people to actually have the skills and experience to actually do the job properly.

I think also that might afford a career path if there's a proper and clear structure awareness of what local government audit looks like and it's properly resourced and it's actually given the proper support and training, I think that is the means by which you can see a development of an audit complement which actually is focused on local government. There is, as some will know, the broad recommendation which is suggesting a professional audit qualification. Although I haven't advocated that in my report, there is certainly some argument to say that there needs to be some attention given to whether or not that level of expertise is reflected in the qualification.

Steve: Linked to that, Tony, another question. "Did you consider recommending the creation of a new public sector audit body along the lines of the old district audit service that you mentioned?" The question goes on to say, "That seems to be the glaring omission in local audits in England compared to Scotland, Wales, and Northern Ireland. England only has this excessive reliance on the market and the market's clearly under stress."

Sir Tony: I did look quite closely at Wales and Scotland in my report. I've given quite an insight into how each of those works. Yes, I did think about whether or not that could be readily applicable in the England situation, but I don't think it's that straightforward. I think that the public sector audit is a critical area. I've argued that in terms of trying to achieve something in a relatively short space of time, then the best outcome would be to actually get the audit firms to be structuring their own training

and education to support the staff, to give them a career path, and give the public sector that facility, but the public sector audit body per se, no, I didn't support that.

Steve: Isn't that the problem, though, that in a sense? We can ask the audit firms or a new organization can ask the audit firms to do that but that doesn't necessarily make it happen?

Sir Tony: No, but I believe that if the new Office of Local Audit Regulation actually fulfills its role, one of its briefs should well be to ensure that the public sector audit is fit for purpose and that it's actually encouraging the firms, who are actually begging for this work, to have the necessary skills and qualifications to go with it. I think that the earlier question about career paths is very important here in terms of sustainability to local audit markets. I would see OLAR taking a proactive role in this.

Steve: Let me move on to a question about the appointing person, the role that PSAA currently undertakes. The question goes, "Your report refers to OLAR undertaking the next audit search is procurement, but it doesn't mention the choice available to authorities to either appoint their own auditor or rely upon the appointing person to make an appointment." The question then says, "I presume that all authorities will continue to have a choice. If so, am I correct in assuming that OLAR will take on the appointing person role?"

Sir Tony: Yes, the proposal is that OLAR takes on the appointing person role. I think the idea that individual authorities might actually continue to have that role to perform separately is quite a tricky issue because I'm trying very hard here to emphasize the importance of coordination and consistency in standards and application. That oversight from OLAR, therefore, is critical. No, I'm not suggesting that the appointing person be left to individual local authorities.

Steve: So just some clarity there, Tony, you're saying you don't envisage local authorities in future being able to make their own appointments.

Sir Tony: My sense is that that would be best left to OLAR. I would not obviously go as far as to say that if OLAR took a different view of being established, but then should be that discretion available to local authorities. I would not deny that but it isn't a feature of my report.

Steve: Let me turn to a question that touches on the position in health. The question goes, "Is it fair to say that some of your recommendations only work if they're implemented for health as well as for local government and police and fire and so on? Wouldn't it have made more sense for the review's terms of reference to include the whole of local audits including health?"

Sir Tony: It's a very good question. It's not within my brief. I am not in a position to be able to argue that health follow the same course of action that I'm advocating for local government. I think it's been a question asked of me by many people but given the audit firms themselves actually do engage the same staff on health and local government audits, then something needs to be addressed here.

What I'm proposing in my recommendations is that to deal with that issue, certainly in the short term, is that MHCLG and DHSC come together to think about the implications, not only of the revised deadline of 30th of September but also the way

in which audits can be managed, given that the original members are engaged in both health and local government. It is an important issue. I totally agree.

Steve: There's another related question here which says, "If the NHS can procure external auditors independently subject to all statutory regulatory requirements, which are even stricter than local authorities, why did local authorities need a new audit regulator?"

Sir Tony: The point I want to emphasize here, and it features quite a lot in my report, is that what I sense more than anything else is the lack of coordination, coherence, and oversight of local audits. Because although I've said quite rightly that each and everybody participates in the current audit regulation operation, they do not act together. Because they wouldn't because they each have an individual role and responsibility. I'm saying very strongly that I think that oversight coordination of coherence is critical.

Steve: Let's move on to a question about fees. Let me link this with another question that's about accountability. This is the question, "Would it be fair to say that the successful firms have in effect lowballed their bids, driven all the suppliers out of the market, and are then using market instability as the justification for price increases back above the level of the last tender end? If so, what's your view on the moral hazard created and how do we ensure that the situation does not repeat itself in the next round of tendering?"

Sir Tony: I'll start by saying I'm not in a position to comment on the practices and behaviors as implied within each and every firm. What I would say, however, is that, first of all, I do accept that in terms of so-called under-resourcing, that each and every audit firm bid under the procurement arrangement set by PSAA, and they should stand by their contract sum. I'm not arguing with that. The separate point is the consequences of doing that have been, I think, that the audits that have been undertaken, they've not actually reached the level of standard one expects.

In terms of the idea of squeezing the market, I can't comment on whether or not that has happened or not, but I don't believe that that's the critical consideration that I'm addressing here. What I'm trying to say, for the future, is it's very important that the fee structure is such that it enables the audits to be able to be undertaken effectively with the necessary resources available. I would very strongly argue that in terms of squeezing in the market, I mentioned eligibility criteria, it's terribly important that the eligibility criteria do enable the auditors that can't currently actually figure within the bid process, that they're given more opportunity and that question is revisited.

Steve: Tony, you've talked about a price increase, but you don't see that as being related to the prices that the firms originally bid, or it's some sort of adjustment of the prices that firms originally bid. Just give us a bit more about the rationale for a price increase and where that recommendation really has come from in terms of the work that you've done.

Sir Tony: The price increase come from a situation where I've had pushback from a large number of local authorities about the adequacy of the audit staff that are engaged in the work that's carried out on audits for local government. That they do not believe that some people possess the skills, the experience and expertise, and

knowledge to be able to fulfill the role as effective as they should. That's the impact I've had from the local authorities themselves.

Secondly, I've had it from the firms, they say that they are struggling to actually resource this because the price has turned out to be inadequate. As I said earlier, one understands, they set a contract, they determine the price, and they carried on and that should be it. I think the future, nonetheless, leaves it with a challenge that the current fee level is not sufficient to be able to perform the role as effective as they should. The thing I'd say here is that in terms of the way in which that fee structure could be regulated and revisited, I see that as an important feature of the way we conduct this work.

Steve: Let's pick up a point that a couple of questions have made about the funding of your recommendations. Very simply, you've made a number of recommendations that potentially cost money; an increase in audit fees, the expansion of the auditor's work in some areas, the meeting with statutory officers, the liaison with internal audit, and so on, and newer accounting statement. Have you got a view or have you made any representations about the possibility of those changes being funded nationally rather than locally? In other words, MHCLG, picking up some or all of the costs.

Sir Tony: My first point is I do understand the financial constraints under which local authorities are operating and I do understand, therefore, that any additional cost is another burden on an already pressed situation within local government. What I'm saying is that these are the areas that I think should take place in order to fulfill a more effective audit. I'm actually presenting them as issues that MHCLG will need to consider as to whether you include them in the standing round or not.

Certainly, in terms of the OLAR, the actual bid to create a regulator of 5 mil, that would certainly be a feature that I'd put to the department to consider. But I can't commit to that, of course, it is for the department to decide how it would address these. I'm sure there will be an element of additional costs to the local authority, certainly in terms of some of the training that I'm suggesting. One hopes, however, and I have talked to a number of technicians about this in local government, that there may be efficiencies generated by this approach which should actually help in terms of funding the additional costs.

Steve: As I said at the outset, a significant number of our delegates this morning are audit committee chairs and members. Let's just focus on audit committee specifically for a couple of questions. First one, you highlighted the weaknesses in audit committees in terms of membership size and lack of financial expertise, and you suggested having one independent member as a solution.

The question goes on, "Did you consider any other models, for example, the model in police joint audit committees, where there are five independent members, all of whom are suitably qualified and experienced or are appointed on the basis of their skills, qualifications, and experience?"

Sir Tony: Yes, I did. I did look at the question of a body that's all independent members, in terms of membership of audit committee. I actually felt that that is a matter for the local authority. A democratic institution should decide how it actually selects the members that sit on its audit committee. The point about financial expertise and knowledge, I see that as a support for the audit committee members.

I'm not trying to imply any criticism here of the existing arrangements. I'm simply saying it would help audit committee members if they had that background and understanding and training that some local authorities provide, by the way. I think that would be really important. My solution is to help support those existing members, plus give an extra dimension by adding one independent member to the body with the requisite technical knowledge and skills.

Steve: Just a very specific question about, what qualifications do you have in mind? The question asks, "Are you basically talking about an independent member with an accountancy qualification?"

Sir Tony: I'm suggesting that the local authority when seeking to select an independent member, they would want to be assured that the individual had the right technical and professional skills to fulfill that role. Probably more often than not an accountancy qualification, but I don't think it would be for me to prescribe that that would be the person's specification.

Steve: Again, not really in the same territory, "Do you think that the work of audit committees should be more highlighted in some way in relation to the public?"

"You've made recommendations that, in a sense, will highlight the work of the auditor, for example, the report to council, but have you given any thought to promoting the profile of the audit committee?"

Sir Tony: Yes, indeed. What I recognize is that audit committees are in large part, open to the public anyway. The transparency that comes with that is, obviously, something local authorities want to think about. I think that the principal point I was trying to make here was that it's important that at least once a year, there is a debate, in the lights of an audit report, on actually, what's going on in the local authority itself, which is then open in terms of a forum, which is open to the public, and perhaps in a more obvious way than an audit committee might be, and actually, also enables the public to actually engage as they see appropriate.

No, I'm not suggesting that audit committees shouldn't have the same transparency as council, but council does inevitably have a different position in terms of the public's appreciation, expectations.

Steve: Thank you. Tony, a question about this issue about pensions and what this question describes as non-current asset valuations. The questioner welcomes your comments about the unnecessary audit time focused in that area, goes on, "However, my experience is that calls for a reduction in this focus, a turned down on the basis of the requirements as a regulator. Should we expect a different approach from OLAR, given the proposal for it to continue to engage with the current regulator, the FRC via the Liaison Committee?"

Sir Tony: The FRC currently argues, understandably, that the current standard set in terms of valuations of non-current assets and so on is determined by CIPFA/ LASAAC in its accounting arrangements. What I'm proposing here is that CIPFA/ LASAAC engage in consideration of this, and if that were relaxed, then the regulator, whether it be FRC or OLAR, would then be able to judge the actual audit work differently. I think that that's the route one has to follow in order to address this point about non-current asset valuations.

Steve: Let me just move on then to your point about liaison with internal auditors first of all. To what extent do auditing standards allow external auditors to place reliance on work carried out by internal audit? Would it be necessary as a first step, if we encourage closer liaison and reliance, for there to be some sort of assessment by the external auditor of the capability and capacity of the internal audit team? I think that that links to some of the questions where people have really expressed the view that internal audit has been weakened or hollowed out, as it says in one question, over the last 10 or 15 years to a point where the capability and capacity really isn't there to rely on.

Sir Tony: Starting with the liaison with internal audit. It's clear from the feedback I've received from most of the audit firms, is that it is not they dismiss the work that the internal audit is doing, but they do argue very strongly that it's not something that is work on which they can place reliance from an insurance perspective because of the code of practice as currently in place. They argue not so much that they don't value internal audit work, but it is just not a feature of their work program because of the insurance provisions within the code of practice.

In terms of whether or not internal audit capacity has been affected and impacted over the years, I can't comment upon that, other than to say that I think there's a strong pushback from the internal audit community to me to say that they've got a lot to actually offer in terms of a better arrangement with external audit. That link could enable more efficiencies to emerge in the way in which the different aspects of audit are undertaken, both internal and external within a local authority.

I think that is my argument. If in fact there is any opportunity to use the internal audit work to assist the external audit in its own work, that must be a valuable process. I'm struggling arguing for that, and that's why it's in my recommendations. Hopefully, that would then deal with maybe the fact that the profile effectiveness and impact of internal audit has been affected over the years, that this might be better addressed if that liaison is understood and properly recognized. I think also it is an ongoing question here, and that is about code of practice as to whether or not at some stage that be reviewed, because the internal audit work has got relevance to what external audit does.

Steve: Did you get a sense from the internal audit community as to whether they feel their work is valuable in relation to the financial statements work the external auditor carries out or the value for money arrangements work that the auditor carries out, or is it across both of those areas?

Sir Tony: I think they cross both of those. Internal audit varies from one authority to another, of course, and the variations are important to recognize. I think what is argued, though, is that internal audit does a lot in terms of VFM systems-based analysis strategy at work, and so on. This must have a cross over to external audit. I think it may be the Internal Audit Committee want to reflect in the light of what I'm suggesting here, but I think very strongly that there is a need for the external audit to recognize and appreciate the value of internal audit within local government.

Steve: Let me move on to the parallel recommendation about inspectorates. Questioner here asks, "Have you canvassed the views of inspectorates as to whether they are willing to engage fully with auditors?" I know this has been a challenge in the past. I think this goes back into audit commission days, around the

CPA and so on, the intention was to have close relationships between the auditors and the inspectors. Any response to that question?

Sir Tony: Yes. I've spoken to CQC, HMICFRS, and Ofsted, and the point I think that's made here is that there may well be findings emerging from inspectorates which are relevant to what the external auditor has undertaken as well. If there's an issue around the service delivery being compromised as a serious underprovision in terms of service and resourcing, then that must be of relevance to what the external auditor is doing as well.

Inspectorates recognize that and they recognize that anything of serious impact, which they maybe advocating or proposing, could be shared and should be shared with the external audit. What I'm suggesting is that the best means by which that could be achieved is to ensure that there is an appropriate dialogue between the two bodies during the course of the audit of the inspected year.

Steve: Thank you, Tony. Let's move over to the Statement of Accounts, or to your accounting recommendations and just have a look at those number of questions. Here, the first one, "Could you just say a little bit more about what the suggested summary statement is intended to demonstrate and how you envision it being promoted to interested members of the public?"

Sir Tony: First of all, the statements of service information and costs would be at a high level. I'm not suggesting for a minute that the local auditor produce a statement which goes into considerable detail about individual services, subactivities, and the like, which operate within each local authority. I would not suggest that. It is high-level and it's not inconsistent, the sort of information that might be communicated to local authority or council taxpayers at budget stage, so that the information can actually be compared to what the local authority said it would do and what it actually did.

In terms of how that reaches the public, I'm arguing that the digital dimension should be accommodated here. There are different ways, obviously, as communicating this information to the public, but there is an increasing opportunity for local authorities to share this information in that way, and also, because of its simplicity, it might well engage the public in a better way.

I also recognize that in terms of accessibility, there must be different forms of communication, because not everybody would access that digital dimension. That is my view that there is opportunity here for local government, once they've got the simplified statement in place to engage with the public in a way, which enables the public to get a better appreciation of what they're doing.

Steve: Okay. Your proposed solution to some of the problems that you've identified in relation to the complexity of the statement of accounts is an additional statement and the point you made, that's almost counterintuitive that they're long and complex already and now we've got to add something else on. How do you see that working and how do you defend against that observation?

Sir Tony: Well, the local authorities currently produce a narrative statement, and some of local authorities produce an extensive narrative statement, others produce a smaller one. It seems to me that there's an opportunity to validate this information, but on a consistent basis. I think the issue I've addressed here is the fact that local

authorities do produce information to communicate with the public, but there is a high level of inconsistencies how is that represented.

Inevitably unlikely local authorities exercise the discretion as to how to present that statement, but as a consequence, it becomes less and less consistent the way it's communicated across the country. I'm arguing that that additional statement is justified on the basis it's a standardized representation of what a local authority does at a high level.

If it's reconciled with the statutory accounts, it serves that purpose of accountability too, but the statutory accounts are not looked at by the public, that is a clear piece of evidence put to me by so many people. Although there are armchair auditors who might want to go into the depths and detail of the statutory accounts, they are very, very small in number.

Steve: Okay, Tony, thank you. You've called for CIPFA for to review the current code with a view to simplification. Question here about the fact that that call's been made pretty consistently over the last 20 years and the regulators continually do not respond effectively and quote the need for compliance with IFRS. Why should we expect a different outcome this time?

Sir Tony: Well, I can't guarantee of course, there will be a different outcome, but I'm putting the point very strongly to CIPFA/LASAAC that this is an opportunity and a time to review the statutory accounts. As I said, they're not going to be so changed as to enable them to become a simplified statement in what I've described earlier, but there are opportunities to look at those statutory accounts, as long as they are consistent with things like the requirement to be consistent with whole of government account requirements.

I'm actually recognizing there are constraints on CIPFA/LASAAC, but there is opportunity here to do something and I've made that point quite strongly. I am engaging with CIPFA/LASAAC about this very issue.

Steve: Others have asked the question, shouldn't we just drop the IFRS base and or the IFRS requirements and simply produce accounts that are focused on the needs of local government? Again, was that something that you were able to look at all, or did you feel constrained by the cross-government requirement for IFRS?

Sir Tony: I think the last point is important, Steve. I did look at the question as to whether or not there could be a complete overhaul of the statutory accounts. I'm not sure it's entirely within my brief to actually talk about the depths and detail and the analysis and the complexity of the statutory accounts, but I would hope, and I can only hope because it's only on the basis of what I'm recommending, that there will be attention given to how the statute account can be addressed.

The IFRS issue is one that really isn't within my brief. I think that's a wider issue around the accounting standards and principles, but it certainly is something that could be addressed as part of my recommended consideration of the current accounts.

Steve: Thanks, Tony. Let me just ask a question now, which focuses on some of these smaller bodies within the sector. The question goes, "Did you look at all consider National Park Authorities when you looked at this?" It says, "We are a bit of

a hybrid and fall between MHCLG and Defra, we're often forgotten, and the burdens and materiality levels set are often disproportionate. Whilst we have audit committees, often the auditor actually already reports to the authority as our constitutions are the same as councils." I suppose those are the travails of particularly of smaller bodies.

Sir Tony: Yes, forgive me, I didn't actually cover those during the Cosmo presentation. I was just thinking about at the time, but you're quite right. I should have actually talked about this. Yes, in terms of National Park Authorities, I've looked at smaller authorities in general and I've actually suggested three recommendations, which actually I think are important. The first one is the threshold for determining the level of nature of audit that's undertaken within these small authorities needs revisiting. I'm suggesting that SAAA looks at that.

Secondly, I'm suggesting that the current transition authorities that sit around 6.5 million turnover basis for determining whether it's a full audit or not, needs to be reviewed as well because that's a fairly significant change that will actually take place if the organization authority breaches that £6.5 million. Just to say, I'm very conscious of the fact that the current different criteria for determining what level of audit is undertaken, is very complicated. I'm suggesting that that be looked at.

Finally, I'm also suggesting that the current arrangements for dealing with vexatious and persistent objections should be revisited because they must be clear and robust, because they can be extremely time-consuming, can delay the accounts being finalized, and can increase the parish precept, for instance, in the event that there is a very long process to actually achieve an outcome. There are the principal areas that I've covered, and some of that relates to the National Parks Authority.

Steve: At the other end of the scale, in a way, Tony, sometimes the structures of larger councils become more complex. The question here about, what's your view about council wholly-owned companies and how they should be accountable to the local authority? Should there be special arrangements to-- Sorry, the questions jumped up my screen. Should there be special arrangements to ensure that the activities of those entities are properly scrutinized and properly accountable?

Sir Tony: Yes, this is another important area, and it's not unconnected also with the movement towards more commercialization within local government. I've actually drawn attention to the fact that whilst these wholly-owned companies might well be subject to a separate audit, there is an ongoing and in related points, about the impact on the financial resilience and sustainability of the local authority itself. I do think this needs attention, and I do think that the auditor has to have regard to that in terms of the potential impact on the underlying financial stability of the local authority, so yes.

Steve: Question now that takes us back a little bit. I'll just give you as it comes, as it were. It says, "It's a pity the link between fee structure and the provision of appropriately skilled auditors," says we missed in this discussion. I think that's probably more a criticism of me not pressing that point earlier rather than anything you've said. Can I ask Sir Tony to expand upon the linkage between the fees and the ability of the firms to invest?

Sir Tony: Yes. It's a very important concern that's emerged during the course of my review, and I do take the argument that if your fees are not adequate for the purpose, they will impact on the quality and also the extent and nature of the audit work undertaken. I think that needs to be addressed. I've said it at the beginning and I said that it is not about the fact that the current contracts have not been properly set by PSAA and so on and so forth.

It's about the fact that it's apparent that the level of resources devoted to local audit is being stretched and stressed by the fact that the fee now turns out to be incomplete or inadequate. I do think that there's a very strong link between the two, the quality delivery of all of these in the future has to be at a properly resourced level.

Steve: Just scrolling the questions that have been rolling in, the price increase issue is obviously a very sensitive one. There's a question here that says if price increases are allowed on the current contracts, should the firms which bid at actually sensible prices be allowed to reenter the market before the current contracts end?

I suppose it's a question about really the fairness of, amending current contracts, given that there was a tender process in which some people might have bid more sensibly than others and indeed some may have bid but been unsuccessful possibly having bid very sensibly but as a result didn't win contracts. What are your views on that conundrum?

Sir Tony: I'm not in a position to unpick the detail composition of each and every tender or contract let so I can't really say that I could stipulate who should and who shouldn't benefit from such a change. I do think that the fundamental point quite understandably is around the fact that in the end, some firms will be in a more difficult position than others partly because of what you described but also there needs to be a revisiting of the fee structure itself to ensure that level of inconsistency doesn't upturn in the future.

Steve: Okay, Tony. Could you just make any further comments on your views on councils' investments in commercial property and looking at that through the lens of the audit committee? How can those kinds of issues be effectively monitored or can those issues be effectively monitored by audit committees?

Sir Tony: Yes. There are more and more examples of commercial investment of the nature you just described. I'm not here to actually comment on the appropriateness or otherwise of those investments because I've not got the information to say so, but what I can talk about is the importance of ensuring that there is a proper resilience test under VFM arrangements, audit or the overall local authorities financial stability is maintained.

I think that there is an opportunity for the audit committee to ask these questions, to ensure that when there is such a commercial enterprise undertaking, it is consistent with the sound financial arrangements being in place to protect the local authorities financial position. I think that enabling the members of the audit community to be able to ask the right things and question such things as they come along but yes, there's undoubtedly a challenge for audit committees if there is increasing commercialization being undertaken by local government.

Steve: Okay. Let me just ask then a very final question because we're against the clock. Just a very simple question that is about the fact that local authorities are under great financial pressure. Do you anticipate that your ideas will save money, stay the same, increase the costs of local government?

Sir Tony: I think it probably falls into two or three parts. The first is that certainly the things that I'm proposing would increase cost. I'm not suggesting they wouldn't. However, to what extent some of them could be compensated by changes in the way things are working, the efficiencies that might be generated by some of my proposals as well.

Finally, I cannot comment upon the level of central government support that might be available as a result of these initiatives but clearly, that would be a consideration too. I did not put these proposals forward lightly. I know there are constraints within local government and I know it's difficult in these current circumstances to effect such change, but I do think there are some serious issues around the whole question of transparency and accountability, and effectiveness of audit.

Steve: Okay, Tony. Thank you very much. We'll conclude this session at that point so that you can get away to your next meeting. I hope everyone's enjoyed your presentation as much as I have and the Q&A exchanges. We've managed to cover, I think, nearly 30 different questions that have been asked by delegates. Thank you very much for that. I'm relieved that the line has held up. There were two occasions where it just croaked a little but it kept going which is brilliant.

Can I thank you on behalf of the forum for giving us your time this morning? I'm sure everyone's found it really interesting to get behind some of the thinking of it within the report. Obviously, at this stage, none of us know what's going to happen next in terms of the government's response but I'm sure that all delegates will recognize and appreciate that you've given your very best to try and highlight some of the key issues and to try to find solutions to some very, very important, but very complex questions and for that, we're all very, very, very grateful. Thank you, Tony.

Sir Tony: Thank you very much, indeed Steve. Thank you again for the opportunity to talk to you all. I really very much appreciate it. I hope I've helped in some way. Thank you.

Steve: That's great, thank you very much.

Sir Tony: Thank you very much, thank you.