



Audit, Risk & Assurance Committee

Date	4 October 2022
Report title	Public Sector Audit Appointments: Audit Quality Monitoring Report 2021
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Report has been considered by	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the Public Sector Audit Appointments Audit Quality Monitoring Report 2021.

1.0 Purpose

1.1 This report has been prepared to share a summary of Public Sector Audit Appointments Audit Quality Monitoring Report 2021 with members of the Committee.

2.0 Background

2.1 Public Sector Audit Appointments Limited (PSAA) is an independent company incorporated by the Local Government Association in 2014. The Secretary of State specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

2.2 PSAA's Annual Audit Quality Monitoring Report for 2021 covers the work of local auditors appointed by PSAA for the 2019/20 financial year, which was undertaken during a difficult time. The systemic issues that were highlighted in Sir Tony Redmond's Review continued and were compounded by the pandemic.

2.3 PSAA has adopted the International Auditing and Assurance Standards Board's Framework for Audit Quality as the model for its appointing person audit service quality monitoring arrangements. The three tests used to monitor the quality of audit services provided by auditors under PSAA contracts are as follows:

- Adherence to professional standards and guidance;
- Effective relationship management; and
- Compliance with contractual requirements.

2.4 In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit regulation, smaller authorities' audit regulation, the financial resilience of local authorities and the transparency of financial reporting.

2.5 In December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) delivered its initial response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which proposed that the Audit, Reporting and Governance Authority (ARGA) would carry out the hugely important role of the local audit systems leader. ARGA is the new regulator being established to replace the FRC and will contain a dedicated local audit unit which will play a key leadership and coordination role in the local audit framework. MHCLG consulted in Summer 2021 on how the new arrangements would function. Ministers have recently announced that ARGA will be headquartered in Birmingham.

2.6 The next year is likely to continue to be very challenging for all involved in local audit, but DLUHC (formerly MHCLG) will take forward and refine its proposals in its role as interim systems leader until ARGA is created, and the FRC will create a local audit unit in shadow form.

3.0 Report findings

- 3.1 In summary, the results of the professional regulatory reviews of financial statement work showed improvement with 78% (2018/19 62%) of financial statements audits reviewed assessed as requiring no more than limited improvements. This reflects the efforts that all firms have made to address the concerns of the Financial Reporting Council (FRC) and the Institute of Chartered Accountants of England and Wales (ICAEW).
- 3.2 The outcome is consistent with the reviews of corporate audits, but continued improvement is still required, as further improvement across all audit sectors is expected. PSAA has discussed with the firms their plans to address the matters raised by the professional regulators. In the last year of the current Value for Money arrangements audit requirements, all work inspected was assessed as meeting the required standard. However, the fact that only 9% of 2020/21 audits were completed by the expected publishing date of 30 September is concerning.

3.3 Adherence to professional standards and guidance

- 3.3.1 The FRC is the primary regulator and it reviewed the audits of a number of bodies that meet the major local audit definition, focusing in particular on audits with 'higher risk attributes'. The report sets out that 6 of the 20 audits in the sample did not meet the required standard although in their previous report, the FRC judged that 9 audits did not meet the required standard, with the improvement seen as encouraging, whilst too soon to confirm as a trend.
- 3.3.2 The FRC report commented specifically on firms where it reviewed more than one engagement, those with the largest share of major local audits. In relation to Grant Thornton, our own auditors, 9 audits were subject to FRC review and 6 were assessed as meeting the required standard and three as improvements required.
- 3.3.3 The FRC's reviews found that the quality of Value for Money (VfM) arrangements conclusion work across all firms remains high with all 15 reviews meeting the standard. The new Code of Audit Practice changes the reporting of the VfM arrangements work from 2020/21 onwards to be a commentary rather than a binary conclusion.
- 3.3.4 The FRC report highlights that the key areas requiring action by audit firms include improving the evaluation and challenge of assumptions used in valuing operational and investment property. The testing of expenditure also needs to be strengthened.
- 3.3.5 The FRC also cited some good practice examples such as the increased use of experts to help audit highly specialised property assets and the challenge of management's property valuers. Responding to revenue recognition was also highlighted.
- 3.3.6 The FRC report also included the findings of the ICAEW reviews of audits. The ICAEW reported that 15 out of 17 financial statements audits that they reviewed met the required standard along with the associated VfM arrangements work.

3.4 Effective relationship Management

- 3.4.1 All 2019/20 Section 151 Officers and Audit Committee chairs were surveyed by the PSAA to judge the effectiveness of relationships between bodies and their auditors. Responses were received from 40% of Section 151 Officers and 24% of Audit Committee chairs. Respondents

highlighted the local impact of delayed audit opinions, the shortage of auditor resources, the level of scale fee variations, and the extent of the work on property and pension valuations.

3.4.2 Only 20% of responses said that the audit committee had met privately with the auditors. These private sessions are widely acknowledged to contribute positively to the organisation's governance arrangements.

3.4.3 Overall communication remains an area for improvement. 80% of respondents had had frequent communication with their auditors on matters relating to the ongoing pandemic although this fell to 60% for communications on the timeliness of audit work. Communication is the area where most improvement can be made with delays in reporting, the need for an audit deferral or a fee variation highlighted in responses.

3.5 Compliance with contractual requirements

3.5.1 PSAA's biggest concern is the timeliness of audit completion. For the year covered by the report, the percentage of audits completed by the publishing date set out in the Accounts and Audit Regulations was 45%, compared with 58% in the previous year. In 2017/18 87% of opinions were issued by the publishing date.

3.5.2 The National Audit Office's report 'Timeliness of local auditor reporting on local government in England' examined the factors causing the delays, corroborating information provided to the PSAA as part of contract management processes, highlighting a number of contributory factors including:

- Competing resource and workload pressures for both auditors and audited bodies;
- Increasing audit risks such as investment in commercial enterprises;
- Meeting heightened quality expectations of professional regulators;
- Local bodies preparedness for the audit process;
- The impact of the pandemic involving additional audit procedures; and
- The delaying impact of remote working and increased sickness absence.

3.5.3 It is important to note that whilst the Accounts and Audit Regulations specify a date for publishing the financial statement, there is no statutory deadline for an auditor to provide an opinion on those financial statements.

3.5.4 A further report detailing the Government's response to the recent Local Audit Framework: Technical Consultation, and what this means for WMCA will be shared with the Committee at its November meeting.

3.5.5 The full PSAA report can be found at the following link: [2021-AQMR-published-final.pdf \(psaa.co.uk\)](https://psaa.co.uk/2021-AQMR-published-final.pdf).

4.0 Financial Implications

4.1 There are no direct financial implications arising from this report.

5.0 Legal Implications

5.1 There are no direct legal implications arising from this report.

6.0 Equalities Implications

6.1 Not applicable.

7.0 Inclusive Growth Implications

7.1 Not applicable.

8.0 Geographical Area of Report's Implications

8.1 Not applicable.

9.0 Other Implications

9.1 Not applicable.

10.0 Schedule of background papers

10.1 PSAA Audit Quality Monitoring Report 2021