

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

First Delegated Legislation Committee

DRAFT LOCAL AUDIT (APPOINTING PERSON)
(AMENDMENT) REGULATIONS 2021

Monday 22 November 2021

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The Committee consisted of the following Members:

Chair: DAVID MUNDELL

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| † Badenoch, Kemi (<i>Minister for Levelling Up Communities</i>) | McKinnell, Catherine (<i>Newcastle upon Tyne North</i>) (Lab) |
| † Bell, Aaron (<i>Newcastle-under-Lyme</i>) (Con) | † Mann, Scott (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| Betts, Mr Clive (<i>Sheffield South East</i>) (Lab) | Mishra, Navendu (<i>Stockport</i>) (Lab) |
| † Bowie, Andrew (<i>West Aberdeenshire and Kincardine</i>) (Con) | † Owen, Sarah (<i>Luton North</i>) (Lab) |
| † Bristow, Paul (<i>Peterborough</i>) (Con) | † Richardson, Angela (<i>Guildford</i>) (Con) |
| Carden, Dan (<i>Liverpool, Walton</i>) (Lab) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Drax, Richard (<i>South Dorset</i>) (Con) | † Smith, Royston (<i>Southampton, Ichen</i>) (Con) |
| † Heald, Sir Oliver (<i>North East Hertfordshire</i>) (Con) | Liam Laurence Smith, <i>Committee Clerk</i> |
| † Higginbotham, Antony (<i>Burnley</i>) (Con) | † attended the Committee |

First Delegated Legislation Committee

Monday 22 November 2021

[DAVID MUNDELL *in the Chair*]

Draft Local Audit (Appointing Person) (Amendment) Regulations 2021

4.30 pm

The Chair: Before we begin, I encourage Members to wear masks when they are not speaking, in line with current Government guidance and that of the House of Commons Commission. Please also give each other and members of staff space when seated, and when entering and leaving the room. Members should spend their speaking notes by email to hansardnotes@parliament.uk. Similarly, any officials in the Gallery should communicate electronically with the Minister.

The Minister for Levelling Up Communities (Kemi Badenoch): I beg to move,

That the Committee has considered the draft Local Audit (Appointing Person) (Amendment) Regulations 2021.

It is a pleasure to serve under your chairmanship, Mr Mundell. The regulations we are considering today were laid in draft form before the House on 21 October 2021. If approved and made, they will provide for the appointing person to set fee scales for local audit later in the financial year; apply standardised fee variations in specific circumstances; and appoint auditors for shorter contract periods, where appropriate. These regulations are designed to provide the appointing person with greater flexibility to ensure the costs to audit firms of additional work are met, and to reduce the need for time-consuming case-by-case consideration of fee variation requests in order to support the timely completion of local audits.

The Local Audit and Accountability Act 2014 enables the Secretary of State to make regulations through secondary legislation. This statutory instrument was laid before Parliament under the affirmative resolution procedure. The 2014 Act placed responsibility on local bodies to appoint their own auditors. However, that Act also provided for an “appointing person”, specified by the Secretary of State, to appoint auditors on behalf of local bodies that choose to opt into such arrangements. Public Sector Audit Appointments Ltd is a subsidiary of the Local Government Association, and it is the body currently appointed to perform that role.

In September 2020, Sir Tony Redmond published his independent review into the effectiveness of external audit and the transparency of financial reporting in local authorities. The Redmond review found that there was an increasing disparity between the fee scales set by the PSAA and the amount of work being carried out by auditors. In turn, that had led to a large increase in the amount of fee variation requests, which are requests from auditors to charge additional fees beyond those provided for in the fee scales set by the PSAA for

each audit year. The Local Audit (Appointing Person) Regulations 2015 provide for fee variations relating to the audit of a particular authority to be considered by the PSAA. In practice, this means that the PSAA can only consider and approve fee variations on a case-by-case basis.

In their response to the Redmond review, the Government committed to reviewing regulations to provide the PSAA with greater flexibility to ensure the costs to audit firms of additional work were met more easily. To provide that flexibility, earlier this year the Government consulted on potential amendments to the 2015 regulations. The overwhelming majority of respondents to the consultation agreed with the Government’s proposals, which we now propose as the following amendments to the 2015 regulations. First, this statutory instrument will amend the regulatory deadline for the PSAA to set fee scales, from before the start of the financial year to 30 November of the financial year to which the fee scales relate. This will enable the PSAA to take into account more up-to-date information when setting fee scales, including results from previous audits. More accurate fee scales should help to reduce the number of instances in which fee variations are required.

Secondly, this statutory instrument will enable the PSAA to set standardised fee variations to be applied to all local bodies or groups of local bodies. This change is designed to streamline the fee variation process where a particular issue has had a similar impact on the audit of large numbers of local bodies. Circumstances in which this may apply could include a regulatory or policy change, such as a change to accounting or auditing codes, or even one-off events that have a national or far-reaching impact, as we have experienced recently with the coronavirus pandemic. In those circumstances, the PSAA will be able to apply a standardised fee to all affected bodies, preventing the auditor from having to submit a fee variation request for each individual body. The PSAA will be required to consult both opted-in local bodies and local auditors before setting standardised fee variations.

Thirdly, this statutory instrument will give the PSAA the flexibility to appoint auditors for one or more financial years at a time, up to a maximum of five consecutive years. That could include years that precede the date to which the authority opts in, if those years still have an audit outstanding. Under existing regulations, the PSAA is required to appoint an auditor to that authority for the remainder of the compulsory appointing period, which could be up to five years, depending at what point in the appointing period the authority elects to opt in.

In conclusion, these amendments will help to support the stability of the local audit market by making it easier for firms to claim for the costs of work completed. Alongside this, we continue to implement all the recommendations we committed to in our response to the Redmond review, including the regulations we are discussing today. I hope that colleagues will join me in supporting the draft regulations, and I commend them to the Committee.

4.36 pm

Jeff Smith (Manchester, Withington) (Lab): It is a pleasure to see you in the Chair, Mr Mundell, and you will be pleased to know that I intend to be brief in my remarks.

I thank the Minister for her introduction, and I thank the officials who talked me through the regulations last week. The Opposition recognise that the 2020 review by Sir Tony Redmond found concerns about the state of the local audit market and made a number of recommendations to address that, and that this statutory instrument is a result of those recommendations. We also recognise the importance of effective audit procedures so that stakeholders, and ultimately residents and voters, can hold local authorities to account for their performance, so we will not be opposing the statutory instrument.

We note that a large majority of respondents to the Government's consultation, including stakeholders and local authorities, were supportive of the proposals, and so is the Local Government Association. The LGA agrees with the idea of a framework of set-scale fees rather than a large number of variations within a year, and there is general support for the flexibilities in relation to audit timescales and the period of appointments, so we will be agreeing with those proposals.

I have two questions for the Minister. First, I am aware that the Government have earmarked £15 million in extra resources for local authorities to deal with the potential extra costs of audit this year. That funding needs to be ongoing. Can the Minister give any indication about whether the Government plan to roll it over into future years?

Secondly, this is only one part of the response to Sir Tony Redmond's review. There were a number of other recommendations, not all of which have been as well supported or as unanimously accepted as the proposals that we are debating. Some are quite significant issues, such as a new regulatory body for audit. I know that the Government were supposed to respond to the big parts of the review earlier this year. I may have missed it, but I have not seen that response. Can the Minister give us an indication of the full details of the Government's response to those major issues, or of the timescale to achieve the vision set out in the review?

Finally, these regulations may well result in cases of fee increases for audit. It is essential that local authorities are able to carry out their functions, such as audit, properly. I acknowledge the £15 million for this year, but we really need our councils to be properly funded for the long term. We have now had 10 years of underfunding of local authorities, and it is the area of government that has been hit hardest—first by austerity and now, under huge challenge, by the pandemic. It is

not just local services for residents that have been hit, but the ability of local councils to carry out their essential functions properly. We really need the Government to recognise that, and at long last to start funding our councils properly.

4.39 pm

Kemi Badenoch: I thank the shadow Minister for his comments. Members on both sides of the Committee clearly agree that timely completion of audits is vital in maintaining the transparency and assurance of local authority accounts. Late delivery of local assurance can have a significant impact on not just local authority financial planning, but the timely completion of whole of Government accounts. That is why we continue to implement all the recommendations that we committed to in our response to the Redmond review, including the draft regulations.

To answer the shadow Minister's first question, this was before my time, but my understanding is that we have provided a response to the Redmond review. The shadow Minister raised the question of ongoing funding, for which I have not seen any specific request directly. That is, obviously, not something that I can commit to in Committee. We look at all decisions requiring financing in the round, and authorities would need to make representations for that. Given the pandemic and what various authorities and auditing groups have had to deal with, I think that funding is appropriate, certainly at this point in time.

A new regulatory body was a really interesting recommendation. In our spring report, we set out our intention to establish the audit, reporting and governance authority—a new regulator to replace the Financial Reporting Council as a system leader for local audit within a simplified global audit framework. That is where we feel we can meet that recommendation, not exactly to the letter with the office of local audit and regulation that I believe was the initial recommendation.

I am happy to follow up in writing if the shadow Minister has any further questions, but I do not have any more comments. I hope that the Committee will join me in supporting the draft regulations.

Question put and agreed to.

4.41 pm

Committee rose.

