

21 September 2021

PR 17-21 LOCAL AUDIT

The National Association of Local Councils (NALC) is the nationally recognised membership and support organisation representing the interests of around 10,000 parish and town councils and many parish meetings in England, 70% of which are situated in rural areas. Local (parish and town) councils are the backbone of our democracy and closest to local people, providing our neighbourhoods, villages, towns and small cities with a democratic voice and structure for action, contributing in excess of £2 billion of community investment to supporting and improving local communities and delivering neighbourhood level services.

Context

- We understand that Smaller Authorities' Audit Appointments (SAAA) does have extensive interaction and discussion with the National Audit Office who currently set the Code of Audit Practice and issue Auditor Guidance Notes in relation to smaller authorities, and it is proposed that some NAO functions may transfer to the ARGA. If that is to be the case we would expect the ARGA to liaise fully with the local council sector via NALC, along with SAAA and the SLCC for instance.
- NALC believes that the local council sector should be represented on the new Liaison Committee to be chaired by ARGA. This is because SAAA currently has some dealings with the National Audit Office some of whose functions may transfer to the new ARGA and it is proposed that ARGA chairs the Liaison Committee. We note that the LGA will likely be represented on the Liaison Committee. We believe that all sectors of local government should be represented on the Liaison Committee with the LGA representing principal authorities and NALC representing local councils.
- NALC supports the idea in principle that where required and where possible smaller authorities should be asked to provide budget statements and variance explanations alongside **but not as part of** the Annual Governance and Accountability Return to aid transparency for local service users.
- NALC thinks that more support should be provided to parish meetings as we have heard from SAAA that parish meetings, especially those with no income or expenditure, are probably the biggest issue for auditors as significant numbers do not respond to the auditor or submit a Certificate of Exemption as required. This is in the context of NALC seeking the longer term abolition of parish meetings and replacement with local councils.

- Also regarding parish meetings we think that those which do actually levy a precept should rightly be captured by the Audit and Accountability Act 2014. However we believe there are many parish meetings which are covered by the 2014 Act and which have not levied a precept for generations and we believe that principal authorities covering such parish meetings should automatically be required to conduct community governance reviews where a parish meeting has not levied a precept for three financial years in succession, with a view to their ultimate exclusion from the Audit requirements of the 2014 Act.
- We advocate the removal of parish meetings from the audit regime, unless they are 'financially active' and have been so over the last 3 years. In addition, we would support a change to the Community Governance Review system, to require the Review Authority to conduct a CGR of parishes with inactive parish meetings, with a view to grouping them into parish councils.
- As mentioned in the 2019 response to the original Redmond Review consultation NALC then consulted its Super Councils (those larger local councils with an annual [in year] precept of greater than £1 million or turnover of £1.5 million per year) regarding their views on the adequacy of the current limited assurance audit regime for their needs. We were informed that the £6.5 million audit threshold is an issue only if exceeded over three years; Wales and England are out of step as this is £2.5m in Wales. The Joint Panel on Accountability and Governance (JPAG) thought in 2019 the limit should not be changed, councils will need time to plan; advice and support are needed.
- In principle we have no current objection to the idea that – if these Super Councils do start to come near the £6.5 million threshold over the medium financial term – they are asked to provide some additional limited information if they do. However we think that the Ministry should take up the offer of Salisbury City Council to undertake an assessment of the practical implications of local councils entering the Category 1 regime – so that the local council sector is prepared for the full implications of the Category 1 regime. We are supporting the principle of an increase in the threshold, and we are offering to work with the Ministry to explore an appropriate new threshold, along with addressing the question of what additional reporting may be appropriate.
- We hear from SAAA that movements into the Category 1 audit regime have mainly only affected Internal Drainage Boards so far. However we think that MHCLG, SAAA, NALC and SLCC should continue to monitor how near to the £6.5 million threshold NALC's Super Councils are, and for how long, and to share this data as appropriate when known. For this reason we do think that MHCLG should prepare itself over the medium term to increase the

minimum Category 1 audit threshold for smaller authorities but we offer no specific baseline figure for this threshold at this stage.

- In 2019 NALC fed back to MHCLG that until 2009 NALC used to voluntarily collate Best Value statistics for benchmarking between the highest spending 41 local councils. Some of NALC's Super Councils (i.e. councils with an annual precept income of > £1 million or £1.5 million turnover) also asked in 2019 for a return of such benchmarking to gauge value for money. This may represent some of the additionality the review team at the time felt then may be necessary for a local council to collate if it exceeds the £6.5 million threshold over the next few years.

NALC's answers to the most relevant consultation questions are as below.

Liaison Committee

Question 5: Do you agree with the proposed role and scope of the Liaison Committee? Please let us know any comments you have on the proposal.

We support the creation of the new Liaison Committee in principle. We understand that SAAA does have extensive interaction and discussion with the National Audit Office who currently set the Code of Audit Practice and issue Auditor Guidance Notes in relation to smaller authorities, and it is proposed that some NAO functions may transfer to the ARGA. If that is to be the case we would fully expect the ARGA to liaise fully with the local council sector via NALC and its supporter stakeholders (SAAA and SLCC for instance) – either via the Liaison Committee or otherwise.

NALC believes that the local council sector should be represented on the new Liaison Committee to be chaired by ARGA. This is because SAAA currently has some dealings with the National Audit Office some of whose functions may transfer to the new ARGA and it is proposed that ARGA chairs the Liaison Committee. We note that the LGA will likely be represented on the Liaison Committee. We think that all areas of local government should be represented on the Liaison Committee.

Action to further consider the functioning of local audit for smaller bodies

Question 22: Do you have any comments on the proposal to require smaller bodies to publish their budget statements and variance explanations alongside the Annual Governance and Accountability Return to aid transparency for local service users?

We support this as appropriate on balance. NALC supports the idea in principle that where required and where possible smaller authorities should be asked to provide budget statements and variance explanations alongside the Annual Governance and Accountability Return to aid transparency for local service users. It should, however, under no circumstances form part of the AGAR. This would inevitably lead to a significant increase in qualified audit opinions as well as (probably) an increase in Public Interest Reports since, by definition, the information would have “come to the notice of” external auditors, even if this was not specifically part of their reporting responsibility.

However NALC agrees with SAAA that more support should be provided to parish meetings as parish meetings, especially those with no income or expenditure, are probably the biggest issue for auditors as significant numbers do not respond to the auditor or submit a Certificate of Exemption as required. Therefore MHCLG should focus on solving this problem in our view and prioritise how best to assist auditors to elicit responses from parish meetings and complete Certificates of Exemption from parish meetings.

Regarding parish meetings we think that those which do actually levy a precept should rightly be captured by the Audit and Accountability Act 2014. However we believe there are many parish meetings which are covered by the 2014 Act and which have not levied a precept for generations and we believe that principal authorities covering such parish meetings should automatically be required to conduct community governance reviews where a parish meeting has not levied a precept for three financial years in succession, with a view to their ultimate exclusion from the Audit requirements of the 2014 Act.

We advocate the removal of parish meetings from the audit regime, unless they are ‘financially active’ and have been so over the last 3 years. In addition, we would support a change to the Community Governance Review system, to require the Review Authority to conduct a CGR of parishes with inactive parish meetings, with a view to grouping them into parish councils.

SAAA have kindly informed NALC for instance of the following data for parish meetings for the 2020-21 financial year:

1. There are 1,254 Parish Meetings in England, making up over 12% of all smaller authorities. Parish meetings are all included as a 'relevant authority' for audit purposes in the Local Audit and Accountability Act 2014, regardless of whether they raise a precept (all have the right to precept but over half do not precept, and around 640 have no financial transactions whatsoever).

2. Parish Meetings (in line with all smaller authorities) are required to approve their accounts by 30th June and then submit either a Certificate of Exemption or Annual Governance and Accountability Return to their appointed external auditor. By 30th June deadline a total of 569 (45%) parish meetings had not submitted anything to the auditor, and by the end of August (2 months beyond the statutory deadline) a total of 223 (18%) parish meetings remained outstanding and were being followed-up by the auditor.

In the scheme of things though NALC is not in favour of the longer term retention of parish meetings as a model of local government and seeks their eventual dissolution, abolition or replacement with local councils.

Question 23: is the current threshold of £6.5 million still right? If you think a different threshold would be more appropriate, please provide evidence to support this.

On the £6.5m threshold, we are supporting the principle of an increase in the threshold, and we are offering to work with the Ministry to explore an appropriate new threshold, along with addressing the question of what additional reporting may be appropriate. Since 2019 NALC has not heard of any local councils exceeding this threshold. We do think that MHCLG should eventually consider increasing this threshold for smaller authorities though we offer no specific minimum threshold figure.

NALC cited in its 2019 response to the original Redmond Review consultation that it had then consulted its Super Councils (those larger local councils with an annual [in year] precept of greater than £1 million or turnover of £1.5 million per year) regarding their views on the adequacy of the current limited assurance audit regime for their needs. We were informed that the £6.5 million audit threshold is an issue only if exceeded over three years; Wales and England are out of step as this is £2.5m in Wales. JPAG thought in 2019 the limit should not be changed, councils will need time to plan; advice and support are needed.

In principle we have no current objection to the idea that – if these Super Councils do start to exceed the £6.5 million threshold over the medium financial term – they are asked to provide some additional limited information if they do. However we believe that since such a move into Category 1 will involve a huge increase in audit fees and is a completely different regime to the current limited assurance

one for local councils – any local council entering the full audit regime will need support and likely funding as soon as it exceeds the £6.5 million threshold.

However we think that the Ministry should take up the offer of Salisbury City Council to undertake an assessment of the practical implications of local councils entering the Category 1 regime – so that the local council sector is prepared for the full implications of the Category 1 regime.

Question 24: Do you have any comments on the proposal for a requirement for smaller bodies to transfer to the Category 1 authority audit regime only once the threshold has been breached for 3 years in succession?

We support this policy still.

NALC understands that movements into the Category 1 audit regime have mainly only affected Internal Drainage Boards so far. However we think that MHCLG, SAAA, NALC and SLCC should continue to monitor how near to the £6.5 million threshold NALC's Super Councils are, and for how long, and to share this data as appropriate when known.

There will need to be a three year bedding-in requirement for local councils to prepare for the Category 1 regime – no matter what the future figure for a minimum threshold is.

As stated, in 2019 NALC fed back to MHCLG that until 2009 NALC used to voluntarily collate Best Value statistics for benchmarking between the highest spending 41 local councils. Some of NALC's Super Councils (i.e. councils with an annual precept income of > £1 million or £1.5 million turnover) also asked in 2019 for a return of such benchmarking to gauge value for money. This may represent some of the additionality the review team at the time felt then may be necessary for a local council to collate if it exceeds the £6.5 million threshold over the next few years.

However though we know this will not likely be for some time as only two local councils have exceeded £5 million in the last two years and the issue seems to be of more relevance to internal drainage boards currently – we think the Ministry should be prepared in future to increase the minimum threshold entry for smaller authorities to the Category 1 regime.

The three year transition is essential for any smaller authority to comply with the legal and corporate governance changes required to enter the Category 1 scheme.

NALC will continue to work with SAAA, SLCC, MHCLG and JPAG to monitor and report on this situation.

Should you require any further information on this response please do not hesitate to contact Chris Borg, policy manager, on 07714 771049 or via email at chris.borg@nalc.gov.uk.

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