

SMALLER AUTHORITIES AUDIT APPOINTMENTS UPDATE

Mike Attenborough-Cox, chair of the Smaller Authorities Audit Appointments

New audit legislation was introduced by the Local Audit and Accountability Act 2014, which changed the statutory requirements for the audit of smaller authorities (those under £6.5 million annual turnover), following which SAAA was set up as an independent, not-for-profit limited company in January 2016 by the three-sector membership organisations, the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC) and Association of Drainage Authorities (ADA).

The secretary of state appointed the Smaller Authorities Audit Appointments (SAAA) at the then Department for Communities and Local Government as the specified person with statutory functions under the audit legislation to set scales of fees and appoint external auditors for smaller authorities from the audit year commencing 1 April 2017.

Following the completion of 2020/21 limited assurance reviews, the new arrangements have been in place for four years, with only the final 2021-22 year of the current 5-year audit contract remaining.

The procurement for the following 5-year audit contracts from 2022/23 to 2026/27 has recently been completed by SAAA, resulting in 4 firms of external auditors being appointed following the completion of the 2022/23 audit year. The audit firms appointed are the three existing audit firms of PKF Littlejohn, Mazars and Moore (East Midlands) plus BDO, who have re-entered the market.

This is a very successful outcome, with four experienced audit firms appointed to undertake the audit work over the next 5-year contract period.

Local (parish and town) councils will have been advised of their auditor appointment for the audit year 2022/23 onwards following submission of the final AGARs for 2021-22 under the current contract, due by 30 June 2022, unless an authority decides to opt out of the central appointment regime and undertake the lengthy and complex process of appointing their external auditor.

The pandemic affected the 2020/21 audit year completion of Annual Governance and Accountability Returns (AGAR). The annual return is required by legislation to be agreed upon and signed at a full council meeting. With councils no longer permitted to meet remotely from early May 2021 and the statutory deadlines remaining unchanged, the number of authorities who missed the submission

deadline increased. Over 500 local councils and 300 parish meetings missed the statutory deadline of 30 June. By the end of September, three months beyond the deadline, 128 local councils and 168 parish meetings still needed to respond to the auditors.

Key points that have arisen since the revised audit legislation came into force:

- The importance of having a council-owned generic e-mail address, rather than relying on a personal or other e-mail address held only by the clerk, which may not be accessible when the clerk changes.
- All authorities must submit either a Certificate of Exemption if the authority meets the qualification criteria or an Annual Governance and Accountability Return for review by the external auditor. This applies even to small Parish Meetings with no financial transactions. This is a statutory requirement.
- If a council fails to submit the AGAR by the deadline of 30 June, the auditor must issue reminders and charge a fee to the council.
- All income and expenditure must be included when assessing whether the council is under the £25,000 income/expenditure exemption limit, including any grants or loans. Suppose a board incorrectly certifies itself as exempt. In that case, the auditor is likely to exercise its statutory powers and issue a Report in the Public Interest, which will be copied to the Secretary of State, prevent the Council from declaring itself exempt the following year, and incur a minimum charge of £200.
- Audit fees are statutory; the collection of unpaid invoices is time-consuming for auditors, and ultimately legal action will be taken as a last resort to recover statutory due costs.
- Vexatious objections can be a cause of frustration for a small number of local councils; however, the auditor is required to review all objections received from local electors and decide whether to take no further action or to investigate further. The audit legislation makes the council liable for the external auditor costs of the investigation, subject to maximum rates set by SAAA.
- Fee scales for the next five years for limited assurance reviews have only been increased by 5% after remaining unchanged for 15 years. Exempt councils that correctly complete and return their Certificate of Exemption to the external auditor by the submission deadline, 30 June, will not pay any outward audit fee.
- It is illogical for parish meetings with no income or expenditure and that do not levy a precept to be included in the audit regime and must declare themselves exempt. However, this would require a change in legislation.

SAAA is having active discussions with the Department for Levelling Up, Housing and Communities (DLUHC) to remove parish meetings from the regime.

As SAAA moves into the next 5-year period, the SAAA board has undertaken a strategic review to consider how far the AGAR process can be further digitalised and the potential role of SAAA in supporting the development of good financial governance in the sector.

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