



**Report on the
results of Smaller
Authority auditors'
work 2018/19**

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Report on the results of auditors' work at Smaller Authorities 2018-19

Introduction

This is the second report on the results of auditors' work issued by SAAA and summarises the results of auditors' work for 2018-19 at smaller authorities (local government bodies with annual turnover below £6.5 million).

There were a total of 9,789 smaller authorities, comprising of 9,640 'local councils' (town councils, parish councils, community councils, neighbourhood councils, and parish meetings (in parishes where there is no parish council), 113 internal drainage boards (IDBs) and 31 other smaller authorities (such as Charter Trustees, Port Authorities, Conservators etc.). Additionally, there were 5 'shadow' authorities that had no financial transactions which were created by MHCLG for the single year of 2018-19 prior to the creation of new Unitary Councils.

Background

Smaller Authorities

A 'smaller authority' is defined in legislation as an authority where for three years the higher of gross annual income or expenditure does not exceed £6.5 million.

Local councils are the first tier of local government and are statutory bodies. They are independently elected bodies that represent their communities and provide or contribute to a range of services – for example, parks and open spaces, cemeteries, allotments and village halls. They serve about 15 million people in England and spend over £500 million of public money each year.

This expenditure is funded mainly through an annual charge, known as a precept, set by the local council and collected on its behalf as part of council tax.

An Internal Drainage Board (IDB) is a public body that manages water levels in an area, known as an internal drainage district, where there is a special need for drainage. IDBs undertake works to reduce flood risk to people and property and manage water levels for agricultural and environmental needs within their district.

There are 113 IDBs in England whose districts cover 1.2 million hectares (9.7% of England's landmass). They play a key role in reducing flood risk to over 600,000 people and nearly 900,000 properties. They operate and maintain over 500 pumping stations, 22,000 km of watercourse, 175 automatic weed screen cleaners and numerous sluices and weirs.

Internal Drainage Boards spend around £70 million of public money each year. This expenditure is funded mainly through drainage rates on land occupiers and special levies on the local authorities in each drainage area.

The Local Audit and Accountability Act 2014

The Local Audit and Accountability Act 2014 established new arrangements for the accountability and audit of local public bodies in England. The legislation requires every smaller authority to appoint its own auditor for the financial year starting on 1 April 2017 and each subsequent financial year.

Smaller Authorities' Audit Appointments Ltd (SAAA)

SAAA was established as the sector-led 'not for profit' company to assist smaller authorities to procure and appoint external auditors. It was formed by the national sector membership organisations, the National Association of Local Councils, Society of Local Council Clerks and Association of Drainage Authorities.

The Secretary of State at the then Department of Communities and Local Government (now Ministry of Housing, Communities and Local Government) appointed SAAA as the 'specified person' to procure and appoint external auditors to smaller authorities that did not choose to appoint their auditors directly, and to set audit fees for those authorities in compliance with the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, and the Local Audit (Smaller Authority) Regulations 2015.

In 2016 all smaller authorities agreed to have auditors appointed by SAAA. SAAA then undertook a comprehensive and robust procurement tender exercise and was able to appoint external auditors to all smaller authorities in a cost-effective way. This resulted in significant financial savings for the smaller authority sector.

Three firms of external auditors were appointed to undertake the smaller authorities work – PKF Littlejohn, Mazars, and Moore Stephens (now Moore (East Midlands)).

Responsibilities of smaller authorities

Smaller authorities were required to prepare their 2018-19 accounting statements in accordance with statutory requirements and timetables, as set out in the Accounts and Audit Regulations 2015.

They were also required to ensure that the statements were prepared in accordance with "Proper Practices" as set out in "Governance and Accountability for Smaller Authorities in England - A Practitioners' Guide to Proper Practices" approved by the Joint Panel on Accountability and Governance (JPAG) and published jointly by the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities.

Smaller authorities complete their accounting statements in the form of an Annual Governance and Accountability Return (AGAR). The AGAR includes the:

- annual internal audit report;
- annual governance statement (AGS);
- accounting statements; and
- external auditor report and certificate (where required).

All smaller authorities (except Parish Meetings) are required to publish their AGAR on a freely accessible public website. It is, however, apparent that a significant number of smaller authorities have not complied with this Transparency Code requirement.

'Exempt' smaller authorities

The Local Audit and Accountability Act 2014 and Local Audit (Smaller Authorities) Regulations 2015 introduced a new category of authorities that can declare themselves exempt from a limited assurance review by the external auditor.

The main exemption criteria are as follows:

- The authority must certify that, for the financial year in question, the higher of its gross income and gross expenditure did not exceed **£25,000**;
- The financial year must not be one of the first three years of the authority's existence; and
- In relation to the preceding financial year, the external auditor must not have:
 - issued a public interest report in respect of the authority; or
 - made a statutory recommendation to the authority.

The full qualifying criteria for an authority to declare itself as exempt are as set out in Regulation 9 of the Local Audit (Smaller Authorities) Regulations 2015 and are listed on the Certificate of Exemption which is part of the Annual Governance and Accountability Return.

If the authority can confirm that all the criteria apply and that it neither received gross income nor incurred gross expenditure exceeding £25,000, then the authority can declare itself exempt at a full meeting of the authority held after the end of the financial year. The authority must then notify its appointed external auditor by completing and signing a Certificate of Exemption and returning it to the appointed external auditor by 30 June.

Authorities that meet the exemption criteria can still opt for a limited assurance review by their external auditor for a fee if they so choose.

Responsibilities of auditors

For 2018-19, auditors were required to undertake their work at smaller authorities under the Local Audit and Accountability Act 2014 (the 'Act') and the National Audit Office (NAO) Code of Audit Practice (the 'Code').

Chapter 6 of the Code specifically relates to smaller authority assurance engagements and sets out the work required in relation to these engagements. To support auditors in meeting the requirements of the Act and the Code, the NAO also publishes detailed guidance in its Auditor Guidance Note (AGN) 02 'Specified Procedures for Assurance Engagements at Smaller Authorities', to which auditors must have regard. The Code of Audit Practice and Auditor Guidance Notes are available on the NAO website.

A smaller authority limited assurance review is not an audit in accordance with professional auditing standards, but a limited assurance review which provides a level of assurance proportionate to the amounts of public money managed by smaller authorities. Auditors give a limited assurance opinion and certify completion of their work. Auditors issue an unqualified opinion where they consider that the annual return meets the specified requirements.

Where authorities fail to comply with the specified requirements or certain matters come to the auditor's attention, under schedule 7 of the Act auditors are required to consider whether they should exercise any of their additional reporting powers by issuing a written statutory recommendation or a public interest report.

An authority whose auditor has exercised these additional powers cannot then declare itself as exempt in the following year of account but must submit an AGAR to the external auditor for a limited assurance review and pay the relevant fee.

Analysis of outcomes 2018-19

The 2018-19 information in this report is based on the position reported by the auditors to SAAA as at 31 December 2019 and is compared to the 2017-18 figures reported by the auditors as at 31 December 2018.

Exemption

In 2018-19 a total of 5,479 (56%) smaller authorities declared themselves exempt from a limited assurance review by the external auditor – a slight increase on the 5,334 (55%) in 2017-18.

Once an authority has declared and certified itself as exempt, then the auditor does not have duties in respect of that authority unless an objection is received.

Opinions issued

Auditors aimed to issue their opinions and certificates on smaller authorities' 2018-19 annual returns by 30 September 2019, to enable the authorities to publish their annual returns with the auditor's report and certificate by the statutory deadline for the publication of accounts. If there are outstanding objections and challenges the auditor may issue an interim certificate by 30 September pending a review and/or investigation into objections and the auditor's opinion will be issued later.

By 31 December 2019, auditors had issued a final opinion and certificate on the 2018-19 annual return at 4,102 local councils and other authorities (98% of local councils requiring a review), and 108 IDBs (100%). This was a slightly higher proportion than in 2017-18. The number of smaller authorities requiring a review included 234 authorities (2017-18 – 455 authorities) where neither income nor expenditure exceeded £25k but that either were unable to certify themselves as exempt or had specifically requested a limited assurance review.

Table 1 shows the number and proportion of all smaller authorities requiring a review or certifying themselves as exempt (not requiring a review) and the number and proportion of opinions issued as at 31 December 2018 and 31 December 2019, with separate totals for Local Councils and internal drainage boards.

	Local councils 2018-19		Local councils 2017-18		Internal Drainage Boards 2018-19		Internal Drainage Boards 2017-18		All smaller authorities 2018-19		All smaller authorities 2017-18	
Number of authorities	9,640		9,671		113		113		9,789		9,784	
Authorities certifying themselves as exempt (not reviewed)	5,470	57%	5,323	55%	5	4%	6	5%	5,479	56%	5,334	55%
Authorities requiring a review	4,170	43%	4,316	45%	108	96%	107	95%	4,310	44%	4,450	45%
Opinions issued	4,104	98%	4,120	95%	108	100%	107	100%	4,212	98%	4,254	96%
In progress	55	1%	85	2%	0	0%	0	0%	55	1%	85	2%
No AGAR received	43	1%	111	3%	0	0%	0	0%	43	1%	111	2%

Qualified and unqualified opinions

Auditors issue an unqualified opinion where they consider that the Annual Governance and Accountability Return (AGAR) meets with the specified requirements. Where this is not the case, the auditor will qualify the opinion, setting out the reasons.

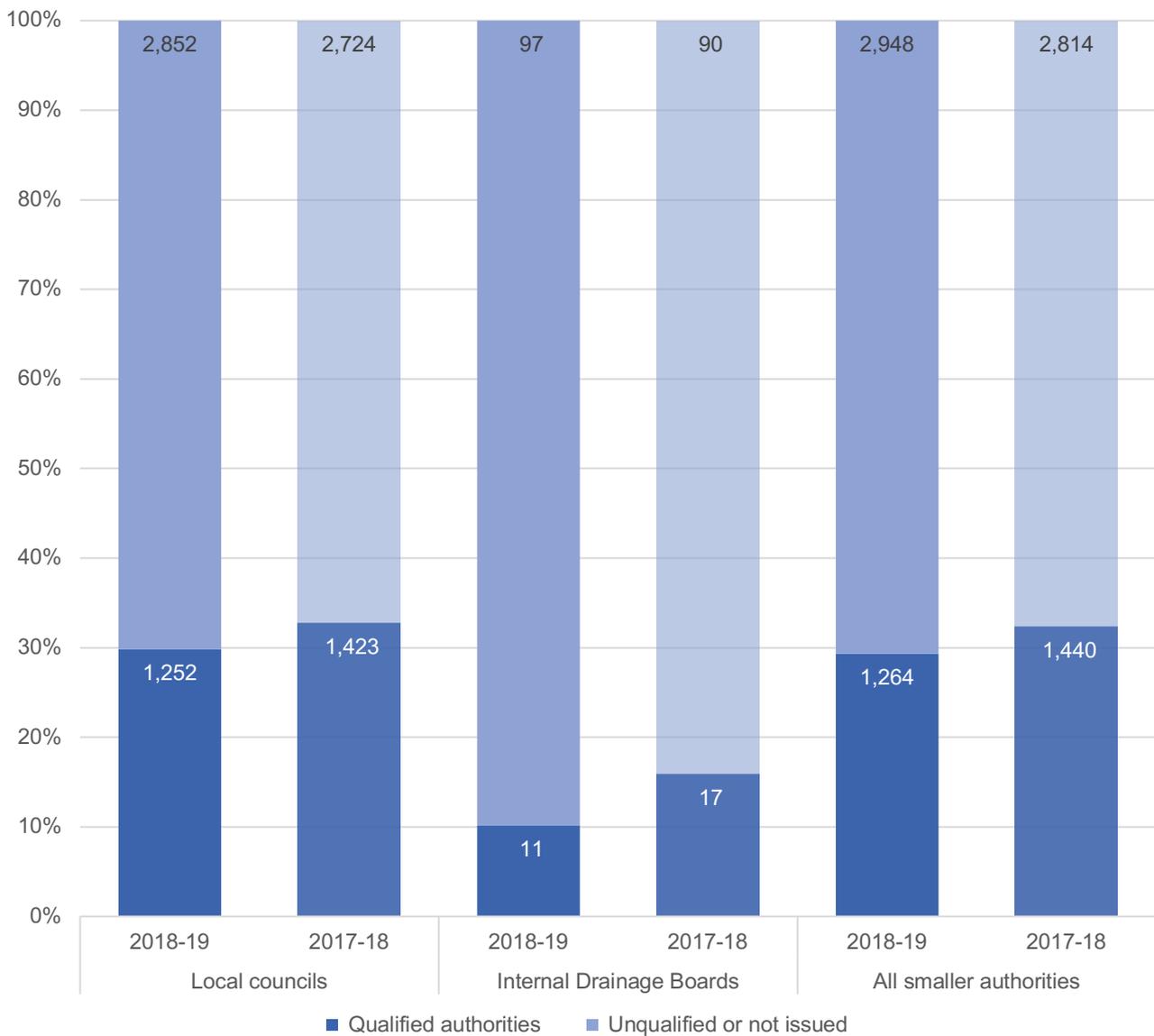
Auditors may qualify the opinion on the AGAR because of issues identified in the accounting statements, the annual governance statement (AGS), or both. A qualification on the AGS may relate to one or more of the assertions the smaller authority is required to make. These assertions are listed in Appendix 2.

By 31 December 2019 auditors had issued unqualified opinions to 70 per cent of all smaller authorities requiring a review (2017-18 – 66 per cent), including 69% to local councils (2017-18 – 66%), 90 per cent (2017-18 – 84 per cent) of IDBs, and as shown in Figure 1 and Table 2.

Table 2: Number of qualified and unqualified opinions

	Local councils and Other 2018-19		Local councils and Other 2017-18		Internal Drainage Boards 2018-19		Internal Drainage Boards 2017-18		All smaller authorities 2018-19		All smaller authorities 2017-18	
Opinions issued	4,104		4,147		108		107		4,212		4,254	
Qualified opinions	1,252	31%	1,423	34%	11	10%	17	16%	1,264	30%	1,440	34%
Unqualified opinions	2,852	69%	2,724	66%	97	90%	90	84%	2,948	70%	2,814	66%
Opinions not issued	98	2%	196	5%	0	0%	-	0%	98	2%	196	4%

Figure 1: Qualified and unqualified opinions by authority type – 2018-19 and 2017-18



The number and proportion of internal drainage boards in each fee band receiving a qualified opinion is shown in more detail in Table 3 and Figure 2.

Table 3: Qualified opinions for Internal Drainage Boards by fee band – 2018-19 & 2017-18						
Fee band (£)	Number of internal drainage board reviews 2018-19	Number and percentage of qualified opinions		Number of internal drainage board reviews 2017-18	Number and % of qualified opinions 2017-18	
1 to 25,000	9	-	0%	9	-	0%
25,001 to 50,000	14	1	7%	13	3	23%
50,001 to 100,000	14	2	14%	16	6	38%
100,001 to 200,000	12	2	17%	9	-	0%
200,001 to 300,000	8	1	13%	12	2	17%
300,001 to 400,000	4	-	0%	3	-	0%
400,001 to 500,000	3	-	0%	4	-	0%
500,001 to 750,000	10	1	10%	8	-	0%
750,001 to 1,000,000	9	2	22%	9	1	11%
1,000,001 to 2,000,000	12	2	17%	10	3	30%
Above 2,000,000	13	-	0%	14	2	14%
Total	108	11	10%	107	17	16%

Figure 2: Qualified and unqualified opinions for reviewed Internal Drainage Boards by fee band – comparison of 2018-19 and 2017-18

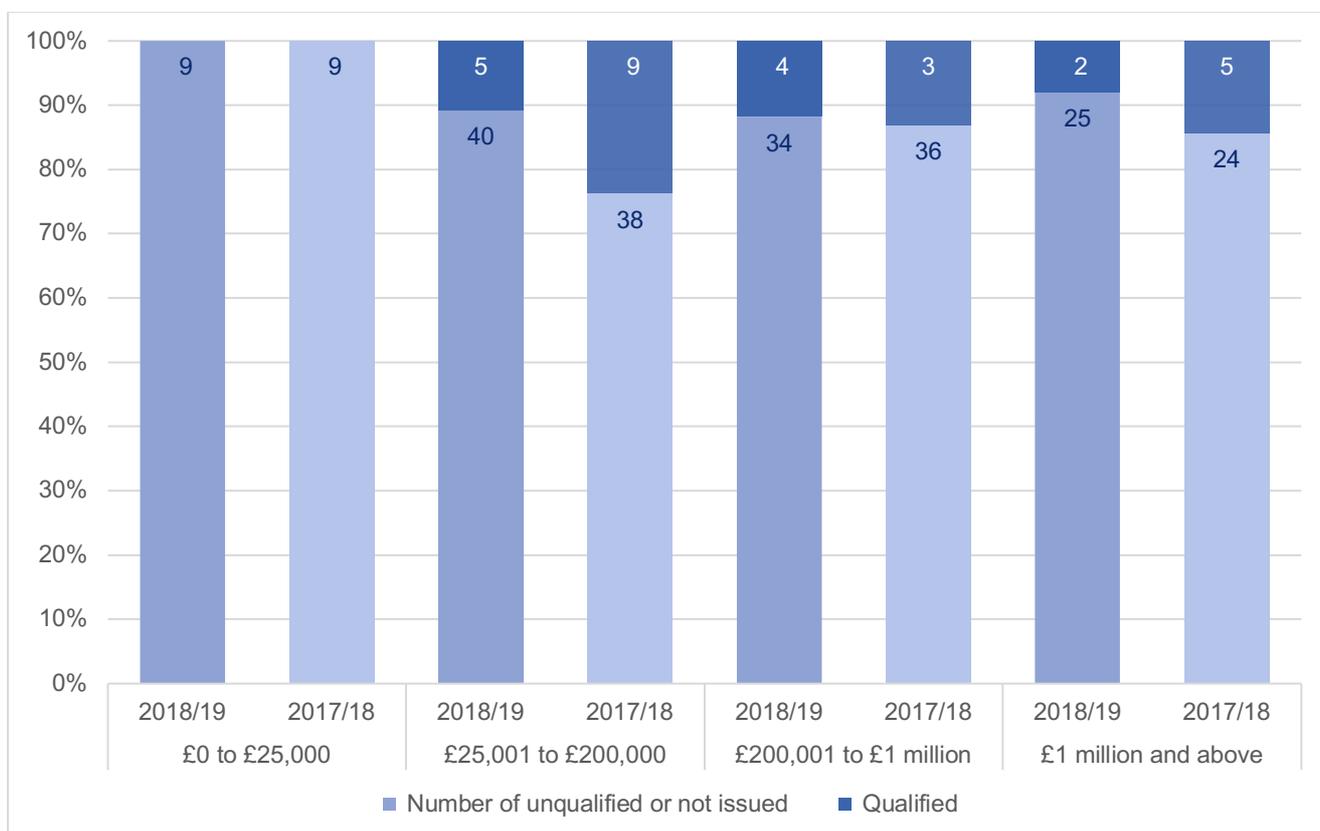


Table 4
Opinions and qualified opinions issued by 31 December 2019 by County (contract) area

County area	Number of authorities	Number not requiring review	Number requiring review	Opinions issued by 31/12/19	Qualified opinions 2018-19	% qualified opinions
Avon	137	56	81	81	25	31%
Bedfordshire	126	51	75	75	21	28%
<i>Berkshire</i>	<i>103</i>	<i>37</i>	<i>66</i>	<i>65</i>	<i>11</i>	<i>17%</i>
Buckinghamshire	218	80	138	136	43	32%
Cambridgeshire	259	114	145	144	42	29%
Cheshire	233	140	93	92	33	36%
Cleveland and County Durham	185	104	81	81	28	34%
Cornwall	213	77	136	134	46	34%
Cumbria	268	198	70	68	23	34%
Derbyshire	255	130	125	118	41	35%
Devon	402	252	150	148	45	30%
<i>Dorset</i>	<i>192</i>	<i>121</i>	<i>71</i>	<i>69</i>	<i>16</i>	<i>23%</i>
<i>East Sussex</i>	<i>103</i>	<i>31</i>	<i>72</i>	<i>69</i>	<i>14</i>	<i>20%</i>
Essex	283	113	170	163	50	31%
Gloucestershire	263	175	88	87	34	39%
<i>Hampshire & IoW</i>	<i>296</i>	<i>112</i>	<i>184</i>	<i>180</i>	<i>42</i>	<i>23%</i>
Herefordshire	137	99	38	38	11	29%
Hertfordshire	125	51	74	73	23	31%
Humberside & East Riding of Yorkshire	244	135	109	104	34	33%
Kent	316	111	205	201	51	25%
Lancashire	247	121	126	125	35	28%
Leicestershire	280	170	110	107	37	34%
Lincolnshire	473	358	115	110	48	43%
London	1	0	1	1	0	-
Norfolk	527	358	169	166	54	32%
North Yorkshire	601	476	125	121	36	30%
Northamptonshire	264	150	114	113	29	25%
Northumberland	156	108	48	46	16	35%
Nottinghamshire	210	134	76	74	22	30%
Oxfordshire	316	175	141	134	56	42%
Shropshire	194	110	84	84	27	32%
Somerset	316	205	111	111	41	37%
South Yorkshire	91	39	52	52	13	25%
Staffordshire	186	99	87	86	29	34%
<i>Suffolk</i>	<i>428</i>	<i>301</i>	<i>127</i>	<i>121</i>	<i>22</i>	<i>18%</i>
<i>Surrey</i>	<i>87</i>	<i>24</i>	<i>63</i>	<i>62</i>	<i>11</i>	<i>18%</i>
Warwickshire	224	130	94	90	33	37%
West Sussex	155	48	107	104	31	30%
<i>West Yorkshire</i>	<i>92</i>	<i>20</i>	<i>72</i>	<i>68</i>	<i>16</i>	<i>24%</i>
Wiltshire	272	170	102	98	33	34%
Worcestershire	162	87	75	73	20	27%
Other Authorities	31	4	27	27	11	41%
<i>Internal Drainage Boards</i>	<i>113</i>	<i>5</i>	<i>108</i>	<i>108</i>	<i>11</i>	<i>10%</i>

Areas shown in **bold** had a particularly high proportion of qualified opinions (35 per cent or more)
Areas shown in *italics* had a particularly low proportion of qualified opinions (less than 25 per cent)

Public Interest Reports and Statutory Recommendations

Schedule 7 of the Local Audit and Accountability Act 2014 requires auditors to consider whether, in the public interest, they should make a report on any matter that relates to an authority or an entity connected with the authority coming to their notice during the audit, so that it can be considered in accordance with the requirements set out in schedule 7 or brought to the public's attention. Auditors may issue a public interest report during or after the end of the audit.

By 31 December 2019 auditors had issued 24 public interest reports to smaller authorities relating to the 2018-19 year of account, compared with 19 such reports issued by 31 December 2018 in relation to the 2017-18 year of account. As at 28 February 2020 the total of public interest reports issued in relation to 2017-18 was 23; a total of 27 reports had been issued in relation to the 2018-19 year of account and it is possible that this number will increase following the conclusion of ongoing auditor investigations into challenge matters. No public interest reports were issued to IDBs.

Public interest reports mainly related to the failure of authorities to submit to the external auditor an Annual Governance and Accountability Return (AGAR) or Certificate of Exemption for the year ending 31 March 2019.

Table 5 lists the authorities where the auditor has issued a report in the public interest, often as a result of the authority's failure to submit an AGAR or Certificate of Exemption. There are some authorities listed that also failed to comply in a previous year or years. Public interest reports for individual authorities are published on the SAAA website (www.saaa.co.uk) and copies are sent to the Secretary of State at the Ministry of Housing, Communities and Local Government and the local Monitoring Officer.

A total of 5 public interest reports were issued to authorities that came to the auditors' attention as having wrongly declared themselves exempt from a limited assurance review in 2017-18. This usually occurs when an authority does not include all of its gross income and/or expenditure when considering if it meets the £25k or less criterion to declare itself exempt. There may well be other similar cases that have not come to the auditor's attention.

It remains a concern that in relation to both the 2017-18 and 2018-19 financial years 5 authorities have failed to respond to the auditor and have neither submitted an annual return for review nor confirmed that they are exempt from limited assurance.

During 2018-19, 33 statutory recommendations were issued by auditors the majority of which were for failure to respond and submit either an AGAR or Certificate of Exemption to the external auditor.

Table 5: Public interest reports issued over the past 3 audit years

Public interest reports issued over the past 3 audit years, mainly for failure to submit the Annual Governance and Accountability Return and/or a Certificate of Exemption for 2018-19 or 2017-18, and failure to produce or provide evidence to support the 2016-17 annual return.

Those authorities in bold failed to submit for both the 2017-18 and 2018-19 financial years.

Smaller authority	2018-19	2017-18	2016-17
Alne Parish Council	X		
Alverdiscott and Huntshaw Parish Council	X	X	
Backford Parish Council		X	
Bispham Parish Meeting		X	
Bowerchalke Parish Council		X	
Bromfield Parish Council			X
Burton Hastings Parish Meeting			X
Chirbury with Brompton Parish Council			X
Clowne Parish Council			X
Coniston and Thirtleby Parish Council	X		
Coveney Parish Council	X		
Dalwood Parish Council		X	
Eskdale Parish Council		X	
Essington Parish Council		X	
Freethorpe Parish Council	X		
Gedding Parish Meeting	X		
Great and Little Leighs Parish Council	X		
Great Wratting Parish Council	X	X	
Greetham Parish Council	X		
Gunthorpe (Notts) Parish Council	X		
Hardwick Parish Meeting			X
Hatfield Heath Parish Council	X		
Hooton Roberts Parish Meeting		X	X
Howden Town Council	X		
Keelby Parish Council	X		
Kelbrook and Sough Parish Council		X	
Kilminster Parish Council		X	
Ledston Parish Council	X		
Levens Parish Council	X		
Lyneham & Bradenstoke Parish Council	X		
Mapperton Parish Meeting	X		
Middleton Parish Council (Morecambe)	X	X	
Nidd Parish Council		X	
Orchard Park Community Council		X	
Overton Parish Council (Lancashire)		X	
pudding Norton and Testerton Parish Council		X	X
Ripple Parish Council	X		
Salterforth Parish Council		X	
Scarrington Parish Meeting	X		
Scotter Parish Council	X	X	
Scrayingham Parish Council	X	X	X
Sennen Parish Council		X	
Snetterton Parish Council		X	
St Buryan Parish Council		X	
St Gluvias Parish Council	X		
St Levan Parish Council		X	
Stanstead Parish Council	X		
Stoke Gabriel Parish Council	X		
Stretton Baskerville Parish Meeting			X
Theydon Mount Parish Council	X		
Uffculme Parish Council	X		
Water Orton Parish Council		X	X
West Halton & Coleby Parish Council		X	
Winterton Town Council	X		

Conclusion

2018-19 was the second year of the new audit regime for smaller authorities. In 2017-18 there had inevitably been some misunderstandings of the new legislation by authorities, especially in relation to the new category of exempt authorities and the actions required to declare exemption and to notify the external auditor. It was pleasing that in 2018-19 more authorities were able to certify themselves as exempt from a limited assurance review and that auditors were able to issue a higher proportion of opinions by 31 December.

Whilst the number of authorities that failed to return an AGAR or Certificate of Exemption reduced from 94 in 2017-18 to 43 in 2018-19, there remain a number of very small authorities that are potentially 'exempt' authorities but that appear to have assumed that, because they meet the exemption criteria, they do not need to do anything. These authorities have evidently failed to read the instructions issued by the auditor or to understand the new audit legislation and have consequently failed to correctly declare themselves exempt and notify the auditor of their exempt status by submitting a Certificate of Exemption. Repeated follow-up action by auditors appears to have been ignored.

This resulted in 24 Public Interest Reports being issued by external auditors. Copies of these reports were sent to the Secretary of State at the Ministry of Housing, Communities and Local Government (MHCLG) and to the Monitoring Officer at the relevant District or Unitary Authority.

There also remain 23 authorities that still have 'open' audits from previous years. These are listed in Appendix 2. In these cases, auditors have not yet been able to certify completion, usually because of ongoing investigations into objections from previous years: later years cannot be signed off until the audit from the previous year has been completed.

In line with government strategy, communication now is mainly by electronic means (except where authorities request otherwise), and this highlights the importance of every authority maintaining an authority-specific e-mail address owned by the authority to ensure that the authority continues to receive important communications when a Clerk or Responsible Financial Officer (RFO) has changed.

The Transparency Codes issued by government require all smaller authorities (except Parish Meetings) to publish their Annual Governance and Accountability Returns on a freely accessible public website – this includes authorities that are 'exempt' from a limited assurance review by the external auditor.

Appendix 1

Prior Year open audits as at 31 December 2019

These are authorities where a prior year audit remains open due to ongoing investigation by the auditor into objections still outstanding from a previous year; subsequent years cannot be signed off until the audit from the previous year has been completed.

Authority	2015-16	2016-17	2017-18
Kirby Muxloe Parish Council	x	x	X
Holme Parish Council	x	x	X
Potto Parish Council		x	X
Goring-on-Thames Parish Council			X
Sandford St Martin Parish Council			X
New Alresford Town Council			X
Spaldington Parish Council			X
Weasenham Parish Council			X
Felton Parish Council			X
Rothbury Parish Council			X
Wark Parish Council			X
Barlborough Parish Council			X
Keighley Town Council			X
Stowe Parish Council			X
Sandown Town Council			X
Bethersden Parish Council			X
Badsworth Parish Council			X
Shaftesbury Town Council			X
Welney Parish Council			X
Upton Parish Council (Northampton)			X
Pinxton Parish Council			X
Woodbridge Town Council			X
Rodborough Parish Council			X

Appendix 2

Listed below are the assertions that members of an authority are required to confirm, to the best of their knowledge and belief, in respect to the Accounting Statements for the audit year.

Assertions in the Annual Governance Statements

1. We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.
2. We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.
3. We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.
4. We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.
5. We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.
6. We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.
7. We took appropriate action on all matters raised in reports from internal and external audit.
8. We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate, have included them in the accounting statements.
9. (For local councils only) Trust funds including charitable. In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.