

## Update on Local Audit

### Purpose of report

For information.

### Summary

This report is a general update on local audit and outlines the major reviews and other activity that has been undertaken in this area over the past three years, as well as current progress both on immediate problems and on the longer-term proposals.

Is this report confidential? Yes  No

### Recommendation

That officers continue to work with the government and other relevant bodies, including those mentioned in this report, to address the problems with local audit, work to create a sustainable audit market, and set up a new framework for local audit that is appropriate for the sector.

### Action

Officers to proceed as directed.

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## Update on Local Audit

### Background

1. At the last meeting of Resources Board, Members asked for an update on local audit. This report outlines the major reviews and other activity that has been undertaken in this area over the past three years, as well as current progress both on immediate problems and the longer-term.

### Issues with local audit

2. The current issues with local audit are complex and have a number of causes including a limited number of firms within the market and a shortage of suitably qualified auditors working for those firms. This situation has been made worse by tighter and stricter regulation of auditors following audit scandals in the private sector and more recently by the difficulty of auditing under COVID conditions. The issues are multi-faceted and complex and will take time to address. They require a concerted response from a range of stakeholders including government, the audit firms, the regulators and CIPFA.
3. Councils have been reporting issues with the local audit arrangements for some time and these have been highlighted by the LGA's Resources Board. The issue was first raised as a problem in detail by the Board in Spring 2019, leading to the then Chair of the Board writing to the then Local Government Minister to raise concerns over expectations that several audits would not be completed in time to publish 2018/19 accounts. The issues are much wider than just delays in finalising audited accounts, but the delays are a clear and very visible symptom of the problems with local audit.
4. Appendix A is a list of sixteen formal submissions and responses on local audit by the LGA through Resources Board since June 2019. This does not include other more informal submissions and discussions by officers. This reflects the recent high profile of local audit due to the problems being experienced.
5. Since June 2019, however, the situation has deteriorated so much that for 2020/21 only 9% of accounts audits were concluded by the deadline of 30th September 2021. This was despite 85% of councils submitting their draft accounts by the 31st July. Whatever the causes, this level of performance is unacceptable. It delays the process for getting public assurance on council accounts and governance and involves council finance teams in a great deal of extra work in servicing the needs of auditors over an extended period.

### Redmond Review

6. In July 2019 the Government appointed Sir Tony Redmond to carry out an [independent review into the arrangements in place to support the transparency and quality of local](#)

[authority financial reporting and external audit in England](#). This was initially to look how the audit arrangements introduced since 2014 had been implemented as well as the effectiveness of the current audit arrangements.

7. The LGA, working through Resources Board, [submitted evidence](#) to the [Redmond Review](#), [responded to its findings](#), and [submitted further evidence](#) to [associated inquiries](#) such as the by the Public Accounts Committee into [local auditor reporting in local government in England](#). We have also engaged in discussions with DLUHC, other Government departments such as Business Energy and industrial Strategy (BEIS), and bodies such as the Financial Reporting Council (FRC), Institute for Chartered Accountants in England and Wales (ICAEW), the Chartered Institute for Public Finance and Accountancy (CIPFA), the National Audit Office (NAO), and Public Sector Audit Appointments (PSAA).
8. In order to address the issues, and in response to the Redmond review, the government is putting in place a number of short-term measures to stabilise the local audit market alongside more fundamental long-term measures. Appendix A to a report to Resources Board on 14 January 2021 outlined the Government's response to each of the recommendations of the Redmond review and compared it to the LGA's own response. We concluded that the Government's response is largely in line with the views expressed in the LGA's own response. That report also outlined that discussions would continue with the Government and other stakeholders in order to agree a way forward to address the problems with local audit and work to create a sustainable audit market with more qualified audit firms and greater numbers of qualified auditors. These discussions have continued, including through working groups established by DLUHC looking at future proposals for the operation of audit committees and for improving the external audit market.

### **LGA role and activity**

9. In a supplier-led market, it is important that councils can band together to act as a single voice and as strong, united client. The LGA established PSAA in 2015 to be the appointing person for the national local audit procurement scheme and DLUHC has renewed PSAA's remit for the current procurement round, reflecting the expertise PSAA has developed. PSAA has achieved a great deal in establishing the national scheme and commissioning research to understand the market. It has successfully lobbied government for changes in regulations which will make it easier to manage audit fees, and as a not-for-profit company it has recently returned £5.6m in surplus funds to opted in bodies. PSAA operates independently of the LGA, but we continue to host PSAA within the LGA Group and liaise constantly with the company to ensure the views of LGA members are recognised.
10. The LGA has been taking part in the working groups established by DLUHC in the wake of the Redmond report to ensure that the interests of councils are represented. The working groups have been looking at future proposals for the operation of audit committees and for improving the external audit market. We have also been working

with DLUHC in its response to the very disappointing performance of auditors in the last audit year and have held meetings with senior officials to ensure they understand councils' unhappiness, and this is reflected in the urgency of the response

11. The LGA's Sector Led Improvement work has been enhanced over the last two years to include more support for audit committees and chairs. This includes running Leadership Essentials training for audit committee chairs and providing more on-site training sessions for audit committees and taking steps to facilitate setting up regional forums for audit committee chairs.
12. We will of course continue to lobby government to ensure that any additional costs of audit will be recognised by government and fully funded on an ongoing basis.

### **Most recent activity**

13. In September 2021 PSAA issued an all invitation to eligible bodies (all principal local government including police and fire bodies) to become opted-in authorities to the national auditor appointment arrangements for the audit years 2023/2024 to 2027/2028 in its role as a specified appointing person. Eligible bodies have until 11 March 2022 to opt in to the arrangement. By early February over 200 bodies had opted in.
14. In December 2021 DLUHC published a paper setting out a [range of measures to tackle audit delays](#). These included additional funding of £15 million per year for the next three years to cover additional audit fees, extending the deadline for publishing audited local authority accounts to 30 November 2022 for 2021/22 accounts, and the 30 September date for 5 years from 2023/24 to 2027/28, and supporting PSAA in their proposed procurement strategy for the next round of local audit contracts from 2023/24. The proposals also include a range of longer-term measures aimed at stabilising local audit and improve local accounts. This included a commitment for CIPFA to publish strengthened guidance on audit committees by April 2022 and following consultation, consider making the guidance, committees, and the independent member statutory.
15. Following this, in early February 2022 at the request of DLUHC, CIPFA issued an [emergency consultation on temporary changes to the accounting code for 2021/22 and 2022/23](#). The proposed changes affect the valuation of operational property, plant and equipment and delays the implementation of IFRS (International Financial Reporting Standard)16 on leases. These changes are being proposed to help alleviate delays to the publication of audited financial statements. These are some of the measures referred to in the [paper published by DLUHC in December](#) and were also highlighted in a [letter from Jeremy Pocklington](#), Permanent Secretary at DLUHC, to the Public Accounts Committee in January. The consultation closes on 3rd March and a response is being cleared by Resources Board Lead Members.
16. In February 2022 the Public Accounts Committee (PAC) published a [report on the Local Government Finance System: Overview and Challenges](#). This included highlighting the problems with delays to the audit of council accounts.

### **Implications for Wales**

17. The Local Audit arrangements described in this report affect England only.

### **Financial Implications**

18. The work covered in this paper is included in the LGA's core budget.

### **Next steps**

19. Consultations on further proposals are expected in the next few months. It is recommended that officers continue to work with the government and other relevant bodies, including those mentioned in this report, to address the problems with local audit, work to create a sustainable audit market, and set up a new framework for local audit that is appropriate for the sector.

Annex A – Summary of LGA submissions on Local Audit through Resources Board since June 2019

<b>Date</b>	<b>Submission</b>
<b>June 2019</b>	Letter from Chair Resources Board to PSAA on audit delays
<b>June 2019</b>	Letter from Chair Resources Board to Local Government Minister on audit delays
<b>June 2019</b>	<a href="#">Response to NAO consultation, stage 1, on Local Audit in England Code of Practice</a>
<b>September 2019</b>	<a href="#">Response to NAO consultation, stage 2, on Local Audit in England Code of Practice</a>
<b>October 2019</b>	Letter from Chair Resources Board to Local Government Minister and DWP Minister updating on audit delays
<b>December 2019</b>	<a href="#">Response to call for views Redmond review</a>
<b>March 2020</b>	<a href="#">Response to PSAA consultation on audit scale fees 2020/21</a>
<b>September 2020</b>	<a href="#">Response to NAO consultation on Auditors work on VFM arrangements</a>
<b>November 2020</b>	<a href="#">Letter from Chair Resources Board to Secretary of State as formal response to Redmond review</a>
<b>December 2020</b>	<a href="#">Response to PSAA consultation on proposed new system for audit fee variations</a>
<b>February 2021</b>	<a href="#">Response to PSAA consultation on audit scale fees for 2021/22</a>
<b>May 2021</b>	<a href="#">Response to DLUHC consultation on Changes to Local Audit (Appointing Person) regulations</a>
<b>May 2021</b>	<a href="#">Written evidence submitted to PAC inquiry on Timeliness of Local Auditor reporting on Local Government in England</a>
<b>July 2021</b>	<a href="#">Response to BEIS consultation on Restoring trust in audit and corporate governance</a>
<b>September 2021</b>	<a href="#">Response to DLUHC consultation on Local Audit Technical Framework (ARGA as system leader)</a>
<b>November 2021</b>	<a href="#">Written evidence submitted to PAC inquiry in Local Government Finance system: overview and challenges</a>