

Local Audit Proposals

Purpose of Report

For direction.

Summary

Members are asked to approve responses to the consultations from DLUHC and the National Audit Office (NAO) on proposals to clear the audit backlog.

LGA Plan Theme: A sustainable financial future

Recommendation(s)

That Members of the Economy and Resources Board approve the draft consultation responses appended to this report, subject to any amendments agreed at the meeting, for submission to DLUHC and the NAO.

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Local Audit Proposals

Background

1. Members will be aware of the ongoing crisis in local audit; it has been discussed by the LGA's Economy and Resources Board (and its predecessor Resources Board) on several occasions, having first been raised as a problem in 2019. A list of all the formal submissions made in that period (just under 30) is appended to this report.
2. According to monitoring by Public Sector Audit Appointments (PSAA), at the end of 2023 there were over 770 audits from 2022/23 and earlier years outstanding. This is down from a peak of 918 at the end of September 2023.
3. The causes of the crisis are not simple. It has been recognised that they are multi-faceted and complex and will take time to address. The solution requires a concerted response from a range of stakeholders including Central Government, the audit firms, the regulators and Chartered Institute of Public Finance and Accountancy (CIPFA). We have been pressing DLUHC for a long time to set a firm timetable by which timely audits will be restored. It is therefore welcome that proposals have now been published. This report seeks approval to responses to consultations from DLUHC and the National Audit Office (NAO) on the proposals.
4. Members will recall that at its meeting in September 2023, the Board had a confidential briefing from DLUHC and the Financial Reporting Council (FRC) on the proposals that were being developed. The published proposals are very much along the lines presented at that meeting, although new dates have been proposed.
5. Formal proposals were published on 8 February. These included: a [consultation from DLUHC](#) on the arrangements to be put in place and changes to the Accounts and Audit Regulations; and [a consultation from the NAO](#) on changes to the Audit Code of Practice to support and enable the changes by directing auditors to follow them. The FRC also published [supporting and explanatory material](#). The consultations run for four weeks and close on 7 March. A further consultation on associated changes to the accounting code is expected from CIPFA.

Proposal

6. As outlined in the consultation documents, the proposals have three phases:
 - Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024.

- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
 - Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.
7. The detailed proposals being consulted on concentrate on phases 1 and 2 (reset and recovery). While there is reference to long-term proposals (“reform”), more attention is paid in the proposals to the short term reset and arrangements up until 2028. So, for example, there are interim measures, but no clarity on the long-term plan, to resolve the issue of valuing infrastructure assets and pension valuations that have contributed greatly to the audit crisis. While this is understandable (and the interim measures should be sufficient to allow the “recovery” phase to take place), the suggested responses emphasise that it is crucial that actions taken are part of a long-term plan that will restore confidence in the local audit arrangements, restore timely audits permanently, and improve financial reporting.
8. In outline, the proposals for the reset and recovery phases principally cover back stop dates to be implemented for each financial year. At these dates audited accounts have to be published whether or not the audit has been completed (and if the audit has not been completed the auditor will need to issue a “modified” audit opinion saying so, and explaining why this is so). These dates start at 30 September 2024 for all financial years up to and including 2022/23, and there will then be a backstop for each subsequent year up to and including 2027/28 as follows
- 2023/24 31 May 2025
 - 2024/25 31 March 2026
 - 2025/26 31 January 2027
 - 2026/27 30 November 2027
 - 2027/28 30 November 2028
9. Following the publication of the consultations DLUHC hosted a webinar to explain the proposals. It was attended by over 430 people from local authorities and audit firms. The FRC has also been running a series of round tables that to go into more details on the proposals.
10. At the consultation events, it has been emphasised that Public Sector Audit Appointments will be given powers to vary audit fees to take account of audit work not done. However, there is little or no reference to this in the actual consultations and associated documents. The need for fees to reflect work done

is something that members have raised before, so this issue is therefore raised in the suggested response.

11. The suggested responses are attached as appendices for members' approval. Appendix 2 is the suggested response to the [DLUHC consultation](#), appendix 3 is the suggested response to the [NAO consultation](#). It is suggested that the responses are supportive of the proposals, on the basis that there is a need to come to a pragmatic solution to the backlog and that, overall, the proposals now represent the best opportunity for resolving the situation. However, it is suggested that the point is also made that this must not lead to reputational damage for councils as a result of a problem that is not of their making. It is acknowledged that there is much in these proposals that will be hard for local authorities to deal with (and also much that will be hard for others in the system).

Implications for Wales

12. The proposals affect England only.

Financial Implications

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

Equalities implications

14. The audit of a council's accounts can relate to all aspects of local authority services. The audit of the accounts affects local authorities and their residents as a whole and it is difficult to assess what individual impacts there are on people with protected characteristics. Ensuring the accessibility of the accounts to all is an important part of achieving transparency and good governance. Improving the position on completion of audits of the accounts should help local authorities in deploying resources to deliver services and aid them in being able to improve equalities generally.

Next steps

15. That officers make any amendments to the draft responses and arrange submission to DLUHC and the NAO.

Appendix 1

Summary of LGA submissions on Local Audit through Economy and Resources Board (and its predecessor Resources Board) since June 2019

This only includes formal cleared public documents. It does not include confidential submissions, informal discussions, informal correspondence and other contact between members and officers and Ministers and officials, nor attendance at Ministerial roundtables on this subject.

Date	Submission
June 2019	Letter from Chair Resources Board to PSAA on audit delays
June 2019	Letter from Chair Resources Board to Local Government Minister on audit delays
June 2019	Response to NAO consultation, stage 1, on Local Audit in England Code of Practice
September 2019	Response to NAO consultation, stage 2, on Local Audit in England Code of Practice
October 2019	Letter from Chair Resources Board to Local Government Minister and DWP Minister updating on audit delays
December 2019	Response to call for views Redmond review
March 2020	Response to PSAA consultation on audit scale fees 2020/21
September 2020	Response to NAO consultation on Auditors work on VFM arrangements
November 2020	Letter from Chair Resources Board to Secretary of State as formal response to Redmond review
December 2020	Response to PSAA consultation on proposed new system for audit fee variations
February 2021	Response to PSAA consultation on audit scale fees for 2021/22
May 2021	Response to DLUHC consultation on Changes to Local Audit (Appointing Person) regulations
May 2021	Written evidence submitted to PAC inquiry on Timeliness of Local Auditor reporting on Local Government in England
July 2021	Response to BEIS consultation on Restoring trust in audit and corporate governance
September 2021	Response to DLUHC consultation on Local Audit Technical Framework (ARGA as system leader)
November 2021	Written evidence submitted to PAC inquiry in Local Government Finance system: overview and challenges
March 2022	Response to CIPFA Emergency consultation on temporary changes to the accounting code 2021/22 and 2022/23
June 2022	Response to Urgent CIPFA consultation on temporary changes to the accounting code (Infrastructure assets)

September 2022	Response to Public Audit Forum consultation on Practice Note 10 2022
September 2022	Response to PSAA consultation on audit scale fees for 2022/23
November 2022	Response to DLUHC consultation on statutory override for infrastructure assets accounting
February 2023	Response DLUHC request for views on deadline draft unaudited accounts
March 2023	Written evidence submitted to PAC inquiry on Timeliness of Local Auditor reporting on Local Government in England
April 2023	Written evidence submitted to Levelling Up and Housing Committee enquiry into Financial Reporting and Audit in Local Authorities
May 2023	Response to HM Treasury review of non-investment asset valuations
June 2023	Response to CIPFA Survey – “Impact of the Move to Improve the Reporting of Infrastructure Assets including a (possible) move to a Depreciated Replacement Cost Measurement Basis”
October 2023	Response to Public Sector Audit Appointments Consultation on the 2023/24 audit fee scale
October 2023	Response to Invitation to comment on the 2024/25 Code of Practice on Local Authority Accounting in the United Kingdom, October 2023
February 2024	Response to HM Treasury on Non-investment Asset Valuation for Financial Reporting Purposes. Exposure Draft