

## Agenda item 4

<b>Report title</b>	Measures to improve local audit delays	<b>AGS / 02 / 22</b>
<b>Report to Audit, Governance and Standards Committee</b>		
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<b>Date of meeting:</b> 31 January 2022		<b>For:</b> Information
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<b>Divisions affected:</b> All Essex		

### 1 Purpose of report

- 1.1 The purpose of this report is to update the Committee on a package of measures announced by the Department for Levelling Up, Housing and Communities on **16 December 2021** to support improved timeliness of local audit.

### 2 Recommendations

- 2.1 None – the report is for information only.

### 3 Background

- 3.1 In 2017/18 the deadline for issuing local authority audit opinions was brought forward from **30 September** to **31 July**. Since then, there has been a stark deterioration in the number of local government audit opinions being delivered on time:

Financial year	Statutory publication deadline	Percentage of opinions issued by statutory publication deadline
2016/17	30 September 2017	<b>95%</b>
2017/18	31 July 2018	<b>87%</b>
2018/19	31 July 2019	<b>57%</b>
2019/20	30 November 2020	<b>45%</b>
2020/21	30 September 2021	<b>9%</b>

- 3.2 There are undoubtedly a variety of complex factors contributing to these audit delays, including that:
- Audit firms are struggling with a high level of staff turnover.
  - There are increasing workload and regulatory pressures on the auditors.

- Issues, in some cases, with the preparation of local authority accounts have led to delays in audits being signed off.

**3.3** Considering the complexity of the issues behind audit delays, the government is clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code setters working collectively to implement solutions across the sector.

**3.4** The government is continuing to prioritise measures to improve timelines of auditor reporting and support capacity. It has already:

- Laid new regulations to provide greater flexibility in the setting of audit fees so that they can reflect the most recent market conditions.
- Provided **£15m** of additional funding to local bodies for 2021/22 to support with implementation of recommendations following the Redmond Review<sup>1</sup> and to meet additional costs resulting from new audit requirements.
- Extended the statutory deadline for publication of audited local authority accounts from **31 July** to **30 September** for the **2020/21** and **2021/22** financial years.
- Consulted on proposals for the Audit Reporting and Governance Authority (ARGA) to take on a systems leadership role for local audit.

**3.5** Whilst these measures should be beneficial in the longer term, the Department for Levelling Up, Housing and Communities (DLUHC) announced additional measures on **16 December 2021** to support improved timeliness and the wider local audit market.

## **4 Measures relating to audit firms and timely completion of audit**

**4.1** DLUHC has engaged with audit firms to understand the issues that are affecting the stability of the audit market, including timeliness, and has emphasised the need for firms to get the timely completion of local audit back on track as quickly as possible.

**4.2** DLUHC have heard from the audit firms that their capacity is being limited by a lack of qualified experienced auditors and so are exploring ways to improve training and qualification support.

**4.3** In particular, DLUHC is proposing that:

- The Financial Reporting Council publishes updated guidance for Key Audit Partners (KAP), including new routes for an experienced Registered Individual to become a KAP.

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<sup>1</sup> The Redmond Review was an independent review, commissioned by the Secretary of State for Housing, Communities and Local Government in June 2019, into the oversight of local audit and the transparency of local authority financial reporting. The findings were published in September 2020.

- The Chartered Institute of Public Finance and Accountancy (CIPFA) develops a new local audit training diploma in local government financial reporting and management and a new technical advisory service that could provide support to audit firms (to new entrants in particular).

## **5 Measures relating to local bodies and quality of accounts preparation**

**5.1** Although many local authorities prepare their accounts to a high standard and generally do meet the deadline for providing draft accounts, there are instances where issues with the preparation and quality of local authority accounts contribute to delays in the auditor's opinion being issued.

**5.2** DLUHC is therefore seeking to emphasise and elevate the important role that audit committees have in ensuring that accounts are prepared to a high standard and that issues identified by audit firms are resolved swiftly.

**5.3** DLUHC is providing **£15m** of additional funding per annum over the period 2022/23 to 2024/25 to further support local authorities to strengthen the capability and skills in their financial reporting, appoint independent members to their audit committees and to meet the costs of increased auditing requirements.

**5.4** CIPFA is to publish strengthened guidance on audit committees by April 2022 which will emphasise:

- The role that the audit committee should have in ensuring accounts are prepared to a high standard.
- The importance of appointing independent members to audit committees.

DLUHC is considering whether to mandate compliance with the CIPFA guidance and whether to make the requirement for an audit committee, with independent members, a statutory requirement.

**5.5** Finally, DLUHC is to provide, via the Local Government Association, funding for a number of targeted training events for audit committee chairpersons.

## **6 Proposed measures relating to accounting and audit requirements**

**6.1** Local authority accounts and audits should be focussed on areas of greatest risk and concern to citizens. These should be transparent and accessible, whilst also complying with International Financial Reporting Standards and Whole of Government Accounts requirements.

**6.2** Given the fundamental capacity issues facing the audit sector, DLUHC are keen to reduce some of the accounting and auditing requirements where these relate to areas of less risk to local bodies, as well as other options to assist timely delivery of audits. Specifically, DLUHC is proposing a number of measures, as follows:

- The National Audit Office's **Code of Audit Practice** and **Auditor Guidance Notes** are to be amended to alter the timing of elements of the Value for Money audit work, to allow more focus on fully delivering audit opinions on the financial statements.
- **CIPFA** is to undertake a project to improve the presentation of local authority accounts and **HM Treasury** is to undertake a thematic review of the valuation of non-investment property for financial reporting purposes in the public sector. Both reviews are intended to inform the development of the CIPFA **Code of Practice on Local Authority Accounting in the United Kingdom** (the Accounting Code) for the 2022/23 and subsequent financial years.
- CIPFA has also been asked to consider the merits of time-limited changes to the Accounting Code for operational property, plant and equipment revaluations for the 2021/22 Accounts.
- Adoption of the **standardised statement of service information** (as proposed by the Redmond Review) will be deferred while audit timeliness issues are so severe.

## **7 Longer term measures to help stabilise the market and address long term supply issues**

**7.1** The measures outlined in the previous paragraphs are designed to support improved timelines in the short term. However, some issues within the local audit market will require a longer-term approach.

**7.2** DLUHC has been working closely with Public Sector Auditor Appointments (PSAA) on their procurement strategy for the next round of local audit contracts (covering the five years 2023/24 to 2027/28), including encouraging existing suppliers to remain and creating opportunities for new suppliers to enter the market.

**7.3** DLUHC is of the view that it would be counterproductive to revert to the previous statutory publication deadline of **31 July**. Therefore, subject to consultation, secondary legislation will be introduced to extend the deadline for publication of audited local authority accounts to:

- **30 November 2022** for the **2021/22** accounts.
- **30 September** for successive years, until 2027/28 (after which the deadlines will be reviewed again).

It is proposed that the deadline for producing draft accounts of **31 July** for the 2020/21 and 2021/22 financial years will revert to **31 May** from 2022/23.

**7.4** The Code of Audit Practice is usually updated every five years. However, it is proposed that the Code of Audit Practice 2020 will be re-laid in Parliament so that it will apply for the whole of the next appointing period (2023/24 to 2027/28).

**7.5** Finally, DLUHC intends to work with the Audit Reporting and Governance Authority and one or two of the successful audit firms from the next local audit procurement, to develop an industry led workforce strategy to consider the future pipeline of local auditors.

## **8 Policy context and Outcomes Framework**

**8.1** The annual Statement of Accounts summarise the financial performance and financial position for the Council and, as such, provide a financial representation of activities against the Organisation Strategy. The external audit of the annual statement of accounts, and of the Council's arrangements to secure value for money in the use of resources, provides assurance that taxpayers' money has been well managed and properly accounted for; this is one of the cornerstones of public accountability.

## **9 Financial Implications**

**9.1** There are no specific financial implications associated with this report.

## **10 Legal Implications**

**10.1** There are no specific legal implications associated with this report.

## **11 Staffing and other resource implications**

**11.1** There are no staffing or other resource implications associated with this report.

## **12 Equality and Diversity implications**

**12.1** There are no equality and diversity, or other resource implications associated with this report.

## **13 List of Background Papers**

- 13.1** Link to the Government's statement on measures to improve local audit delays: <https://www.gov.uk/guidance/measures-to-improve-local-audit-delays>