

CITY OF
WOLVERHAMPTON
COUNCIL

Audit and Risk Committee Meeting

Monday, 14 March 2022

Dear Councillor

AUDIT AND RISK COMMITTEE - MONDAY, 14TH MARCH, 2022

I am now able to enclose, for consideration at next Monday, 14th March, 2022 meeting of the Audit and Risk Committee, the following reports that were unavailable when the agenda was printed.

Agenda No Item

- 13 **Measures to Improve Local Audit Delays** (Pages 3 - 12)

[To receive a report on the measures to improve local audit delays.] (To follow.)

If you have any queries about this meeting, please contact the democratic support team:

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CITY OF WOLVERHAMPTON COUNCIL	Audit and Risk Committee 14 March 2022
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Report title	Measures to improve local audit delays	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
Accountable employee	Emma Bland	Finance Business Partner
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Report to be/has been considered by	None	

Recommendations for noting:

The Audit and Risk Committee is asked to note:

1. Measures published by the *Department for Levelling Up, Housing and Communities*, to improve local audit delays.

1.0 Purpose

1.1 To update the Audit and Risk Committee on measures proposed by the *Department for Levelling Up, Housing and Communities (DLUHC)*, to improve local audit delays.

2.0 Background

2.1 In 2017-2018 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since then, only 45% of 2019-2020 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020-2021 audits completed by the extended deadline of 30 September 2021.

2.2 As the National Audit Office (NAO) outlined in its 2020 report *Timeliness of local auditor reporting on local government in England*, a variety of complex factors are contributing to audit delays, including:

- Audit firms struggling with a net loss of qualified staff
- Increasing workload and regulatory pressure on auditors
- Local authorities diverting staff resources away from completing working papers and preparing accounts

2.3 Considering the complexity of the drivers behind audit delays, DLUHC feels 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.

2.4 The government is continuing to prioritise measures to improve timeliness and support capacity as part of their response to the Redmond Review. Measures already taken are:

- New regulations to provide greater flexibility to ensure that the costs to audit firms of additional work are met more easily
- Additional funding to local bodies for 2021-2022 to support with the implementation of recommendations following the Redmond Review and new audit requirements, including the new value for money reporting arrangements.
- Extension of the statutory deadline for published audited local authority accounts to 31 September (from 31 July), from 2020-2021, for two years.

2.5 On 16 December 2021, DLUHC published a paper, setting out a range of additional measures committed to by government and other key stakeholders, to support improved timeliness and the wider local audit market.

This covering report summarises the key points below, more detail can be found in Appendix 1: a summary of the DLUHC paper published 16 December 2021.

2.6 The measures are divided into the following sections:

- *Section 1: Measures relating to audit firms and timely completion of audit, (in particular the lack of qualified, experienced auditors).*

This covers new initiatives for the training and development of auditors.

- *Section 2: Measures relating to local bodies and quality of accounts preparation.*

CIPFA plan to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Section 2 also proposes further funding of £45 million over the course of the next Spending Review/ to support local bodies as well as grant funding for a number of targeted training events for audit committee chairs.

- *Section 3: Proposed measures relating to accounting and audit requirements*

This section covers altering the timing of elements on the Value for Money work, to enable more focus on fully delivering opinions on the financial statements, improving the presentation of local authority accounts, and considering the valuation of non-investment properties, with a view to identifying where burdens could be reduced without compromising the needs of users.

- *Section 4: Longer-term measures to help stabilise the market and address long-term supply issues*

This section proposes to extend the deadline for publishing audited local authority accounts to 30 November 2022 for 2021-2022 accounts and the 30 September date for 5 years from 2023-2024 – 2027-2028.

We have sought clarity on these dates and now understand the following to be the proposed dates: publishing audited local authority accounts to 30 November 2022 for 2021-2022 accounts and the 30 September date from 2022-2023 – 2027-2028. (Currently the deadline is 30 September for 2021-2022.)

It also proposes, subject to consultation, that the deadline for preparing draft accounts remains as 31 May. (Currently the deadline is on or before 1 August.)

It is believed these measures will help to ensure that audit provides transparency and accountability in local councils.

This covering report summarises the key points, more detail can be found in Appendix A: a summary of the DLUHC paper published 16 December 2021.

3.0 Next steps

- 3.1 DLUHC will continue to work closely with key partners across the audit sector, including local bodies and audit firms, to deliver on the measures above, in addition to outstanding commitments they made in their response to the Redmond Review.
- 3.2 They be publishing their response to the technical consultation they carried out this summer, which will provide further detail on the future of systems leadership for local audit. Their consultation response will also update on the number of the commitments made above.

4.0 Financial Implications

- 4.1 The Statement of Accounts, and the audit of the accounts by the external auditors, is an important element of the accountability and transparency of the Council's finances.

[EB/07032022/P]

5.0 Legal implications

- 5.1 The Secretary of State makes the Accounts and Audit Regulations in exercise of powers conferred by the Local Audit and Accountability Act 2014. The Accounts and Audit Regulations 2015 require the 2020-2021 Statement of Accounts be produced in accordance with proper practice.
- 5.2 This is exemplified by the Code of Practice on Local Authority Accounting which is published by CIPFA. These regulations also require that the accounts are approved and published by 30 September 2021.

[JB/07032022/V]

6.0 Equalities implications

- 6.1 While there are no direct equalities implications arising from the recommendation in this report, the local audit process is a key part of the preparation and sign-off of the Statement of Accounts, and thereby will aid the Council in its ability to meet its equality objectives.

7.0 All other implications

- 7.1 There are no other implications arising from this report.

8.0 Schedule of background papers

- 8.1 There are no relevant preceding reports.

9.0 Appendices

9.1 Appendix 1 – Summary of the DLUHC paper published 16 December 2021

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Measures to improve local audit delays

(Summarised from the Department for Levelling Up, Housing and Communities publication 16 December 2021)

Context

- In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since then, only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.
- Reasons:
 - o Audit firms are struggling with a net loss of qualified staff – leaving the sector entirely or choosing alternative audit opportunities perceived as more attractive than local audit.
 - o Increasing workload and regulatory pressure on auditors (particularly around asset and pensions valuations), from new International Financial Reporting Standards (IFRS) and Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie.
 - o Local authorities diverting staff resources away from completing working papers and preparing accounts. Also, the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19.
- Whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector.
- The government is continuing to prioritise measures to improve timeliness and support capacity as part of their response to the Redmond Review.
 - o They laid new regulations on 21 October to provide greater flexibility to the appointing person through, for example, extending the deadline for setting fee scales so that they can reflect the most recent market conditions, and streamlining the fee variation process under certain circumstances.
 - o They are also providing £15 million additional funding to local bodies for 2021-2022 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements.
 - o They have extended the statutory deadline for publishing audited local authority accounts to 30 September from 31 July from 2020-2021 for 2 years.
 - o They recently consulted on proposals for the Audit Reporting and Governance Authority (ARGA), the new body being established to replace the FRC, to take on a systems leader role for local audit. Ensuring there is a strong system leader will help to ensure broader

alignment across the system to respond to challenges within the market. However, while these changes will be beneficial in the longer-term, we need to go further in the short-term to address the deterioration in timeliness, which has now become a quality issue too. The government emphasised this point at a recent discussion of the Local Audit Liaison Committee on 21 September.

- This paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market.

Additional Measures

Section 1: Measures relating to audit firms and timely completion of audit, (in particular the lack of qualified, experienced auditors)

- FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP
- Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants. Expect to provide further information on this in the New Year.

Section 2: Measures relating to local bodies and quality of accounts preparation

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.
- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, they will consider making the guidance, committees, and the independent member statutory.

- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs.

Section 3: Proposed measures relating to accounting and audit requirements

- NAO rolling over of amendments to 20/21 Auditor Guidance Notes 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements. Given the ongoing nature of delays, the NAO have proposed continuing these arrangements for as long as they are beneficial, including for at least 21/22 audits.
- Local authority accounts are complex in that they are required to comply with both IFRS and statutory accounting principles. This effectively entails presenting two different forms of reporting in one set of accounts, which can be confusing to non-specialists. In recognition of this additional complexity, CIPFA/LASAAC agreed a project in June 2021 to improve the presentation of local authority accounts, which is intended to inform the development of the 22/23 Accounting Code.
- HM Treasury will be undertaking a thematic review of the valuation of non-investment property for financial reporting purposes in the public sector, including the long-standing policy decision to hold such assets at valuation rather than historic cost. This will consider the benefits to users of the financial information and the associated costs. It will look to identify where burdens could be reduced without compromising the needs of users. It is intended that this will inform development of the Accounting Code from 22/23 onwards.
- The government has also asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for operational property, plant, and equipment revaluations under certain circumstances (this would not include investment properties). An evaluation of possible consequences (unintended or otherwise) will be undertaken before any new proposals are finalised in the new year.
- Delaying implementation of standardised statements (to improve transparency and understandability) and associated audit requirements.

Section 4: Longer-term measures to help stabilise the market and address long-term supply issues

- PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24
- PSAA are currently accepting opt-in requests from local bodies ahead of their planned Invitation to Tender in April 2022.
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 – 2027/28.
- Propose, subject to consultation, that the deadline for preparing draft accounts remains as 31 May.
- NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period
- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

Section 5: Next steps

- They will continue to work closely with key partners across the audit sector, including local bodies and audit firms, to deliver on the measures above, in addition to outstanding commitments we made in our response to the Redmond Review.
- They be publishing their response to the technical consultation they carried out this summer, which will provide further detail on the future of systems leadership for local audit. Their consultation response will also update on the number of the commitments made above.