

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.