

**AUDIT & GOVERNANCE COMMITTEE**  
**16 MARCH 2022**

**Government's Measures to Improve Local Audit Delays**

**Report by Director of Finance**

**RECOMMENDATION**

1. **The Audit and Governance Committee is RECOMMENDED to**

Note the key measures outlined in Section 3.

**Executive Summary**

2. The Government is continuing to prioritise measures to improve timeliness and support capacity as part of the response to the [Redmond Review](#) on Local Authority financial reporting and external audit.
3. In January 2021, Catherine Frances the Director General Local Government at the Department for Levelling Up, Housing and Communities (DLUHC) wrote to Directors of Finance setting out a package of measures to help get the timeliness of local audit back on track.
4. Key measures that the Department have committed to are:
  - (a) Providing councils with additional funding over the next Spending Review period to support the cost of strengthening financial reporting and increased audit requirements
  - (b) Strengthening training and qualification options for local auditors and audit committee members
  - (c) Reviewing whether certain accounting and audit requirements could be reduced on a temporary basis
  - (d) Extending 2021/22 audit deadline to 30 November 2022, and then 30 September until 2027/28.

**Introduction**

5. Local government audit plays a vital role in providing local authorities with accurate and reliable financial information to plan and manage effectively. The Government is committed to the principles of a locally led audit regime that has been in operation since 2014.
6. Challenges remain on the timeliness of local audits. Since the audit deadline has been brought forward there has been a decline in the number of opinions issued on time. Most recently only 9% of 2020/21 audits were completed by the extended deadline of 30 September 2021. The sections below give an overview

of key issues and commitments to help the timely completion of future audit work.

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

7. When audit firms have been engaged by the Government, they have provided feedback that their capacity to complete work is limited by a lack of qualified, experienced auditors.
8. The Chartered Institute of Public Finance and Accountancy (CIPFA) is progressing development of a new local audit training Diploma in local government financial reporting and management aimed at senior auditors and other levels of auditor. It will be designed to meet the technical training needs of experienced Registered Individuals.

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

9. DLUHC to provide funding of £45 million over the course of the next Spending Review period to support local authorities with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond Review recommendations and an increase in audit requirements. The amount of grant to individual bodies has not yet been announced.
10. CIPFA to publish strengthened guidance on audit committees by April 2022. This guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard.
11. DLUHC to provide, via the Local Government Association, sector grants for several targeted training events for audit committee chairs.

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

12. CIPFA/LASSAC<sup>1</sup> is undertaking a project to improve the presentation of local authority accounts to inform the development of the 2022/23 Accounting Code and to comply with International Financial Reporting Standards (IFRS). HM Treasury is to undertake a review of financial reporting valuations for non-investment properties to inform development of the 2022/23 Accounting Code.
13. CIPFA/LASSAC has been asked to consider time-limited changes to the Accounting Code for 2021/22. Details of these were issued in February 2022 and consultation closed on 3 March 2022. The proposed changes are summarised below, and will be considered individually:
  - (a) Pausing professional valuations of Property, Plant & Equipment (PPE). Within this option there are two parts. The first would pause valuations at

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee

31 March 2021. The second would be to pause valuations and apply an indexation factor to get valuations for 2021/22.

- (b) Deferring the implementation of International Financial Reporting Standard 16 on accounting for leases which comes into effect for 2022/23 reporting periods.

- 14. Whilst the options to alleviate pressures is welcomed, the timing of the proposed consultation means that the changes would have benefit to the preparation of the accounts for 2021/22. Therefore, the council has continued with work on valuations of PPE for 2021/22 and will continue planned analysis of leases in advance of IFRS16 implementation.

### **Longer term measure to help stabilise the market and address long-term supply issues**

- 15. Public Sector Audit Appointments (PSAA) is to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24. Objectives of this strategy include contributing to efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery at the required level of quality.
- 16. DLUHC have recognised that ongoing changes in the local audit system is unhelpful to audit firms who are looking to plan for the next five-year appointing period. Subject to consultation, legislation will be introduced to extend the deadline for publishing audited local authority accounts. For 2021/22 the deadline will be 30 November 2022. For the following six years it will revert to 30 September.
- 17. It is hoped that measures put in place ahead of the next procurement will help to ensure all parties can play a part in getting audit timeliness back on track. As part of the wider system leadership reforms, to be consulted on in the new year, DLUHC want to establish a shadow form from Spring 2022 which it hopes will address audit capacity issues. The new system leader and 1 or 2 of the successful firms will then develop an industry led workforce strategy that will look at the future of local auditors and their training and qualifications.

### **Financial Implications**

- 18. The outcome of the next audit procurement is not yet known but it could increase the cost of the external audit fee. The distribution of the additional £45 million over the Spending Review period from 2022/23 to 2024/25 is still to be announced.

Comments checked by:

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### **Legal Implications**

19. There are no legal implications arising directly from the measures set out. However, the Council will need to ensure that arrangements are put in place to comply with any amendments to the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 and statutory guidance, including the Code of Practice on Local Authority Accounting in England and Wales.

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Annex: Nil

Background papers: Nil

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