



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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## **Cross-government**

# Local auditor reporting in England 2018

## Key facts

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**£154bn**

approximate net revenue spending in 2017-18 by local government, and Department of Health & Social Care funding to local NHS bodies

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**£64m**

fees for audit of local government and local NHS bodies in 2017-18

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**22%**

proportion of local public bodies that received a qualified conclusion on the adequacy of arrangements to secure value for money

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<b>495</b>	number of local authorities, local police and local fire bodies in England
<b>442</b>	number of local NHS bodies in England, consisting of clinical commissioning groups, NHS trusts and NHS foundation trusts
<b>0</b>	number of local public bodies receiving a qualified opinion on their financial statements since 2015-16
<b>38%</b>	local NHS bodies receiving a qualified conclusion on arrangements to secure value for money in 2017-18
<b>18%</b>	single-tier local authorities and county councils receiving a qualified conclusion on arrangements to secure value for money in 2017-18
<b>39%</b>	clinical commissioning groups receiving a qualified opinion on the regularity of their 2017-18 financial statements
<b>50%</b>	NHS trusts referred to the Secretary of State for failure to break even

# Summary

- 1** Local public services account for a significant amount of public spending. In 2017-18, 495 local authorities, local police and local fire bodies were responsible for approximately £54 billion of net revenue spending and 442 local NHS bodies received funding from the Department of Health & Social Care of approximately £100 billion. These local bodies are also responsible for delivering many of the public services local taxpayers rely on every day.
- 2** Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.
- 3** Each year, local auditors give an opinion on whether local public bodies produce financial statements that comply with reporting requirements and are free from material errors and conclude whether local public bodies have arrangements to manage properly their business and finances (the conclusion on arrangements to secure value for money).
- 4** Taxpayers, national bodies and other stakeholders reasonably expect that the auditor will normally be able to provide assurance that the accounts have been properly prepared, are free from material error, and that the body has proper arrangements in place. However, the public also rightly expects the auditor to highlight publicly any significant concerns.
- 5** The auditor should draw the public's attention to concerns or issues that they think need to be flagged. Auditors can 'qualify' their opinion on the accounts or their conclusion on the arrangements to secure value for money.
- 6** Local auditors also have a range of additional reporting powers and duties to provide information or to prompt action in certain circumstances. These are important tools for the auditor to bring attention to issues that need to be addressed. For example, local auditors can issue Public Interest Reports to draw the public's attention to a particular issue, such as failure to manage a major project, and require the body to consider the report in public. They can also issue Statutory Recommendations that the body must report and consider in public, such as recommending that a local authority produces more detailed and realistic savings plans which take account of its key risks.
- 7** If the auditor's report contains a qualified opinion or conclusion, or is issued under the auditor's additional powers and duties, then it is a 'non-standard' report. Local and national bodies must take seriously, and act appropriately, when local auditors highlight weaknesses or concerns.

**8** In 2017-18, £64 million was spent on fees to external auditors by local government (which includes local authorities, police and fire bodies) and local NHS bodies in England. For this money, local public bodies gain independent assurance that they are spending and accounting for public money properly, but the value is reduced if the work of auditors is not having enough impact.

## **Our report**

**9** Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. This report provides an overview of the work of local auditors.

**10** Our report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

## **Key findings**

**11 Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18.** This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors have yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18 (paragraph 2.2).

**12 However, auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18.** Again, as at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies (paragraph 2.7).

**13 Auditors qualified their conclusions at 40 (8%) of local government bodies.** The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate (paragraphs 2.8 to 2.14 and Figures 4 and 5).

**14 More local NHS bodies received qualified conclusions on arrangements to secure value for money than local government bodies.** In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18 (paragraphs 2.9, 2.26 to 2.33 and Figures 7 and 8).

**15 Local auditors are using their additional reporting powers, but infrequently. Auditors have powers to issue reports or recommendations that require local bodies to publicly consider the matters reported and publish their response.** However, since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews (paragraphs 2.37 to 2.39 and Figure 10).

**16 A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues.** We contacted 102 local public bodies where auditors had reported concerns about their arrangements to ensure value for money. We found:

- half of the bodies (51) said that the auditor's report identified issues that they already knew about. However, the main purpose of the auditor's report is not to bring new issues to local public bodies' attention, but to provide public assurance on the adequacy of the arrangements in place during the year. We would expect local public bodies to be aware of significant weaknesses in their arrangements, and so the comments we received suggest that there is a gap between local bodies' expectations about the purpose of auditors' work in this area and the requirement in the legislation for auditors to conclude on the adequacy of arrangements overall;
- fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and
- twenty-six (25%) did not respond at all to our request (paragraphs 3.2 to 3.9 and Figure 12).

**17 The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies.** Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues (paragraphs 1.17 to 1.23 and 3.12 to 3.17).

**18 Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor.** Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting (paragraph 3.11).

## **Overall conclusion**

**19** Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) we contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

**20** Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

**21** Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

## **Recommendations**

- a** **Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money.** This includes effective scrutiny and challenge by those charged with governance to hold the executive to account.
- b** **Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.** The National Audit Office will develop its guidance to auditors to support them in making the most effective use of the range of reporting powers available.
- c** **The Ministry of Housing, Communities & Local Government and the Home Office should formalise their processes for monitoring the level and nature of non-standard reports issued by local auditors** to demonstrate that they are fully aware of what local auditors are reporting and that they are taking appropriate action. All departments and associated arm's-length bodies should ensure they are challenging local bodies when necessary to demonstrate how they are responding and strengthening their arrangements.
- d** **All departments should establish processes to ensure a consistent and structured response to following up local bodies' response to Public Interest Reports or Statutory Recommendations,** when they are copied to the Secretary of State.