



National Audit Office



Timeliness of local auditor reporting on local government in England, 2020

Ministry of Housing, Communities & Local Government

REPORT

**by the Comptroller
and Auditor General**

SESSION 2019–2021

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Timeliness of local auditor reporting on local government in England, 2020

Ministry of Housing, Communities & Local Government

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

12 March 2021

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Key facts

£100bn

approximate net revenue
spending in 2019-20 by
local government

57%

proportion of local
authorities publishing
accounts with their audit
opinions for 2018-19 by
the statutory accounts
publication deadline of
31 July 2019

45%

proportion of local
authorities publishing
accounts with their audit
opinions for 2019-20 by the
extended statutory accounts
publication deadline of
30 November 2020

- 487** number of local authorities, local police, and local fire bodies in England in 2019-20 subject to audit under the Code of Audit Practice
- 87%** percentage of audit opinions for 2017-18 issued by the deadline of 31 July 2018
- 4 months** additional time allowed by the Ministry of Housing, Communities & Local Government for the delivery of 2019-20 audit opinions by the revised deadline of 30 November 2020
- 26** authorities (5%) with their audit opinions for 2018-19 not yet delivered at 31 December 2020

Summary

1 Local councils account for a significant amount of public spending. In 2019-20, 487 local bodies were responsible for approximately £100 billion of net revenue spending. These local bodies are also responsible for delivering many of the public services which local taxpayers rely on every day; service demands have increased considerably due to the COVID-19 pandemic.

2 Public bodies spending taxpayers' money are accountable for the 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 in that stewardship.

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 consider whether local public bodies have adequate arrangements to secure value for money.

4 High-quality public audit is pivotal for trust in public finance and expenditure in an accountable and democratic system. Proper accounting for public funds is central to democratic accountability at a national and local level. Audit provides reassurance about the competence of management and of those charged with governance (for example, the audit committee) and helps support informed decision-making. Timely reporting is also key to audit performing its proper role in assurance.

5 Taxpayers, national bodies and other stakeholders reasonably expect that the auditor will normally be able to provide, and on time, assurance that the accounts have been properly prepared, are free from material error, and that the body has proper arrangements in place to secure value for money. The public also rightly expects the auditor to highlight publicly any significant concerns and draw the public's attention to concerns or issues that they think need to be flagged. Local public auditors in England have a range of powers available to highlight such problems and ensure they are satisfactorily addressed.

6 If the auditor's report contains a qualified opinion, draws attention to weaknesses in arrangements to secure value for money, or has information issued under the auditor's additional reporting powers and duties, then it is a 'non-standard' report which local and national bodies must take seriously, and act appropriately. Delayed opinions mean authorities can lose valuable time in addressing issues reported and the value of audit is reduced if the work of auditors is not delivered on time. Equally, when matters arise that are sufficiently serious to result in the auditor issuing a Public Interest Report (PIR), the timeliness of reporting becomes even more important.

7 The audit of local government has been impacted by the COVID-19 pandemic, due to increased demand on local authorities in responding to the pandemic locally, and also by both auditors and audited bodies having to adapt their working practices. But the pandemic has also exacerbated long-standing problems in the audit landscape as fees have decreased, audit demands increased and the attractiveness of local audit to the supplier market has declined.

Our report

8 Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit in England, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. Our report sets out the:

- roles and responsibilities of local auditors and national bodies to the local audit framework in England; and
- facts relating to the decline in the timeliness of delivering audit opinions on local government in England and the main factors contributing to that decline in timeliness.

We have based our report on published data; the views of local authority finance directors; key stakeholders in the audit landscape; and audit firms. We have also considered the impact on central government.

Key findings

Timeliness of 2019-20 audits

9 Less than half of local bodies' 2019-20 audits were completed by the extended deadline of 30 November 2020. Figures compiled by Public Sector Audit Appointments Ltd (PSAA) show that 267 audit opinions (55%) were not issued by 30 November 2020. This was despite the Ministry of Housing, Communities & Local Government (the Department) easing the deadline for the completion of the 2019-20 audits from 31 July 2020 to 30 November 2020, due to the effect of the COVID-19 pandemic and to reduce the burden on councils and audit firms. Of the firms contracted to carry out local audits, the percentage of audits delivered by the revised deadline varied from 37% to 54% (paragraphs 2.2 to 2.5, Figures 2 and 5).

10 The timeliness of audit opinions in 2019-20 has deteriorated further from the 2018-19 audits, when around two-fifths of audit opinions were delayed. For the 2018-19 financial year, auditors delivered 284 opinions (57%) by the 31 July deadline. This compared with 220 opinions for 2019-20 issued by the revised statutory deadline of 30 November 2020. This accelerated the downward trend seen since 2017-18; before that, delivery by the deadline had been consistently high (paragraphs 2.2 and 2.3, and Figure 3).

11 The COVID-19 pandemic has had a significant impact on delivery of the 2019-20 audits and the financial position of audited bodies. The pandemic put pressure on the audit process by challenging normal ways of working. It posed practical challenges in producing accounts and supporting evidence, and for auditors to carry out testing. Staff had to work remotely, and the second national lockdown came at a critical point in the audit cycle. Concern over the potential financial implications of the pandemic for some councils meant that auditors had to pay particular attention to the financial position of each audited body, thereby extending and complicating the audit that needed to be completed (paragraph 2.22).

12 The implications of the late delivery of audit opinions for local authorities are significant. Local authorities need accurate and reliable financial information to plan and manage their services and finances effectively. The audit process provides a key element of assurance for financial planning and budgeting. Delays to the audit opinion, and the issue of recommendations to audited bodies, can mean that actions to improve financial efficiency and resilience are also delayed, and risks those actions being less effective (paragraphs 2.6 and 2.7).

13 The late delivery of local audit opinions has delayed the audits for some government departments, impacting on the assurance Parliament receives over how taxpayers' money is used. The annual report and accounts of some major departments, for example the Ministry of Justice, have been delayed by the late delivery of local assurance, including on local government pensions. The 2019-20 Whole of Government Accounts will be delayed (as were the previous year's Whole of Government Accounts). Other assurance processes within departments have also been affected by the late delivery of audit opinions (paragraphs 2.8 to 2.13).

Underlying weaknesses of the local audit system

14 The COVID-19 pandemic has exacerbated problems which already existed within the local audit landscape. Our previous reports and consultation with the sector identified several long-standing problems within local audit. There is insufficient staff with the relevant qualifications, skills and experience in both local finance teams and firms serving the local audit sector, and a net loss of qualified staff from both. The requirements of International Financial Reporting Standards, along with the increased expectations from the Financial Reporting Council (FRC) following the high-profile corporate failures such as Carillion, have combined to produce a significant increase in audit work, such as on asset and pensions valuations, which local authorities found less useful. The relative lack of attractiveness of the audit of local public bodies, compared with alternative audit opportunities available to staff, has contributed to a high staff turnover level. Competing workload pressures, both within the finance function and elsewhere in local authorities, diverted staff resources from completing working papers and preparing accounts within the time available for submission to the external auditors which made the preparation of accounts increasingly challenging (paragraphs 2.15 to 2.22).

15 The Committee of Public Accounts has continued to express concern about the system of local audit. The Department recognised these concerns and in July 2019 commissioned the Redmond Review to review the local audit landscape. The committee recommended that the review should ensure that concerns over current fee levels and the contribution of external audit to governance are examined fully and rigorously. The committee also recommended that the review should assess if external audit was providing an effective service and meeting the needs of local authorities (paragraph 1.13).

16 The Redmond Review reported in September 2020 and recommended major changes in the organisation and regulation of local audit in England. The Secretary of State for Housing, Communities and Local Government stated, on publication of the Redmond Review, that he would consider the findings and recommendations carefully and remained committed to strengthening the local audit system, so that it worked more effectively for taxpayers and councils. The Department's response accepted some of the recommendations of the review and recognised the findings regarding the fragility of the local audit market, agreeing that urgent action is required. The Department set out actions to support market stability, to alleviate some of the immediate funding and timing pressures facing audit firms and local authorities, but decided to consider further the central recommendation to establish a new independent regulator for local audit (paragraphs 1.14 to 1.17).

17 Concerns over the quality of local audit have been raised by the FRC in its report on local audits in October 2020. The FRC inspected 15 financial statement audits in 2019-20 across seven local audit firms. It described the overall results as concerning, with only 40% of audits judged good or requiring no more than limited improvement, down from 64% in 2018-19. The FRC said that urgent action was required from some of the firms, to take appropriate action to respond to the findings and ensure improvements were made in audit quality, given the deterioration in quality in the year (paragraphs 2.25 to 2.29).

Conclusion

18 Given the increasing financial challenge and service pressures on local authorities since 2010, local councils need strong arrangements to manage finances and secure value for money. External auditors have a key role in providing independent assurance on whether these arrangements are strong enough and recommending any action. The late delivery of 2019-20 audit opinions is concerning, given the important part that external audit plays in assurance over taxpayers' money both centrally and locally.

19 There are many organisations which play a part in the local audit system: the National Audit Office; Public Sector Audit Appointments Ltd; the Financial Reporting Council; the Institute of Chartered Accountants in England and Wales; local authorities and local auditors. Since we reported on local authority governance and audit in 2019, despite efforts by these organisations and the Department, we can only conclude that the local audit system has worsened. The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention. This will require cooperation and collaboration by all bodies involved in the local audit system, together with clear leadership from government.

Part One

The local audit framework

1.1 Local public services account for a significant amount of public spending. In 2019-20, local authorities, local police and local fire bodies spent nearly £100 billion delivering their services, which many local taxpayers rely on every day.

1.2 Taxpayers, national bodies and other stakeholders reasonably expect that the auditor will normally be able to assure that the accounts have been properly prepared, are free from material error, and that the body has proper arrangements in place to secure value for money.

The local audit landscape

1.3 Local audit has changed significantly since the abolition of the Audit Commission in 2015.¹ The Local Audit and Accountability Act 2014 (the 2014 Act) sets out the local audit arrangements from 1 April 2015 that apply to local government, local police and local fire bodies. The introduction of the local audit framework under the 2014 Act spread roles and responsibilities for local audit across multiple organisations. **Figure 1** sets out briefly the roles and responsibilities of the Comptroller and Auditor General (C&AG – the head of the National Audit Office (NAO)), local auditors and local public bodies.

The C&AG's responsibilities

1.4 Under Schedule Six of the 2014 Act, the C&AG is responsible for maintaining the Code of Audit Practice. Public audit is wider in scope than that of the private sector. The principles set out in the code reflect this, including the need for local auditors to maintain their independence and act proportionately and efficiently. The code sets out what local auditors are required to do to meet their responsibilities under the 2014 Act and covers the audit of financial statements; work on arrangements to secure value for money; reporting requirements; and the exercise of auditors' additional powers.²

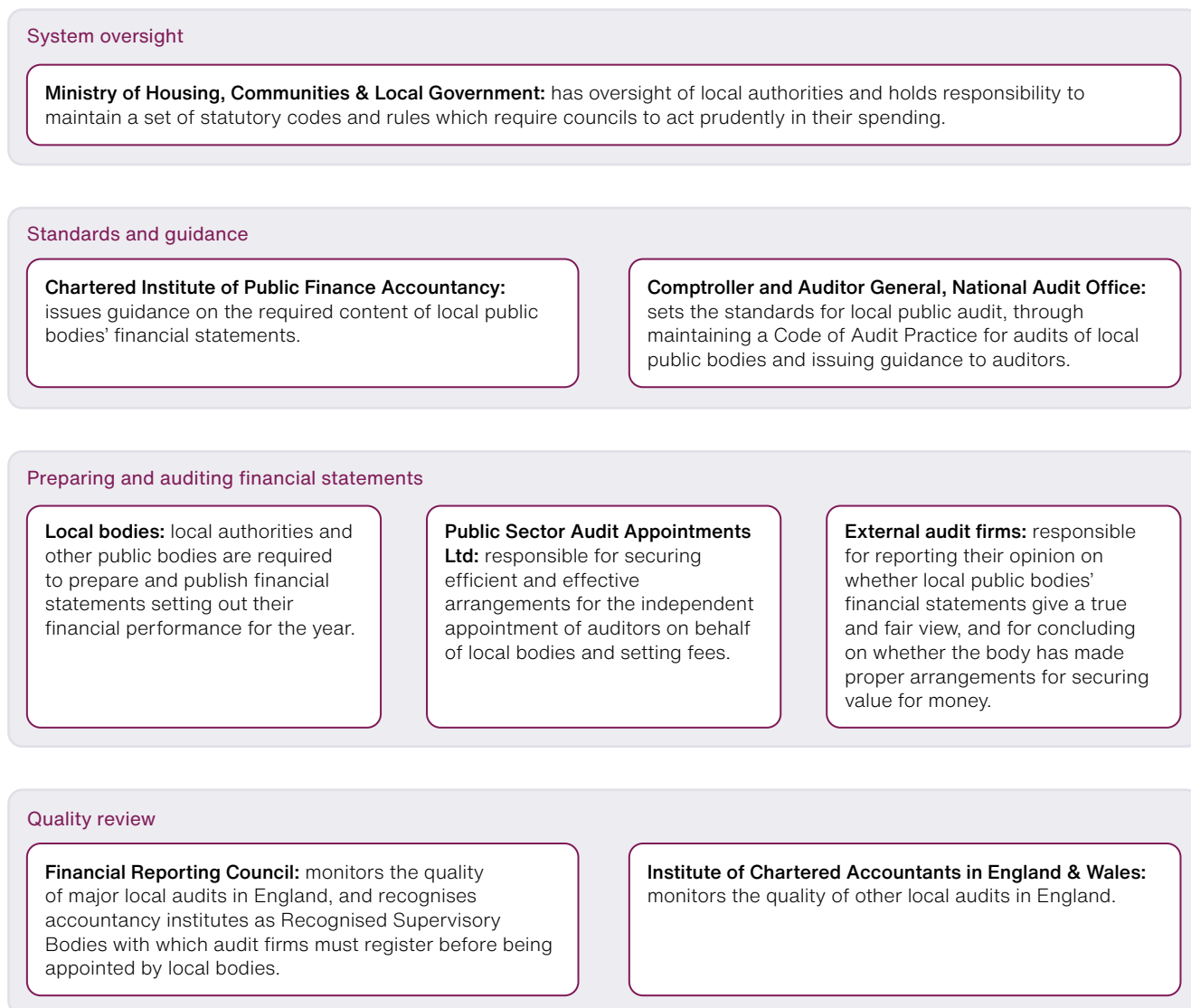
1 Prior to 2015, the Audit Commission appointed local auditors to local government and local NHS bodies, excluding NHS foundation trusts, and maintained the Code of Audit Practice and associated guidance, which set out how local auditors were expected to meet their responsibilities.

2 The 2014 Act also allows the C&AG to issue guidance to local auditors to support them in meeting their responsibilities under the code. Local auditors must "have regard" to this guidance, which means they must either comply with the guidance or give clear reasons within the audit documentation as to why they have not followed it.

Figure 1

Roles and responsibilities for the audit of local bodies

The introduction of the localised audit framework spread roles and responsibilities for local audit across multiple organisations

**Notes**

- 1 The Chartered Institute of Public Finance Accountancy also sets standards for local authority annual governance statements in partnership with the Society of Local Government Chief Executives.
- 2 Public Sector Audit Appointments Ltd appoints auditors for those local bodies that opt in to its national scheme. Local bodies can otherwise appoint auditors themselves.
- 3 For the purposes of quality review arrangements, regulations define 'major' local audits as having total income or expenditure of at least £500 million; or for a Local Authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

Source: National Audit Office review of the roles and responsibilities of the organisations associated with the audit of local bodies

Local bodies' and local auditors' responsibilities

1.5 Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies must prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

1.6 All local public bodies are responsible for making proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.³

1.7 Where the auditor is satisfied that the financial statements present a true and fair view, they issue an unqualified opinion. Where they are not satisfied, or where they have other matters to which they wish to draw attention, they give a qualified or 'non-standard' report. Where the auditor considers that a particular matter is sufficiently serious to draw to public attention more widely, including informing the relevant Secretary of State, they may choose to make a statutory recommendation requiring a public response or issue a Public Interest Report (PIR). Since August 2020, three PIRs and two statutory recommendations have been issued highlighting weaknesses in governance and financial sustainability.⁴

1.8 The Accounts and Audit Regulations 2015 set out the publication requirements for local authority financial statements by specifying a date by which a local authority should publish its accounts.⁵ Where an authority is unable to publish its accounts including the auditor's opinion, it must also publish a notice to that effect including reasons for the delay. Thus, while there is no explicit statutory deadline by which auditors must give their opinion on the financial statements, there is a clear expectation that local authorities should publish accounts including the auditor's opinion by the statutory publication date. It therefore follows that wherever possible, the auditor needs to provide their opinion in time to enable the authority to include it in its published financial statements. In recent years, the publication deadline for local authorities has moved forward. **Figure 2** shows how the publication deadline has changed from 2015 to 2020 and the timeliness of auditor reporting for each financial year.

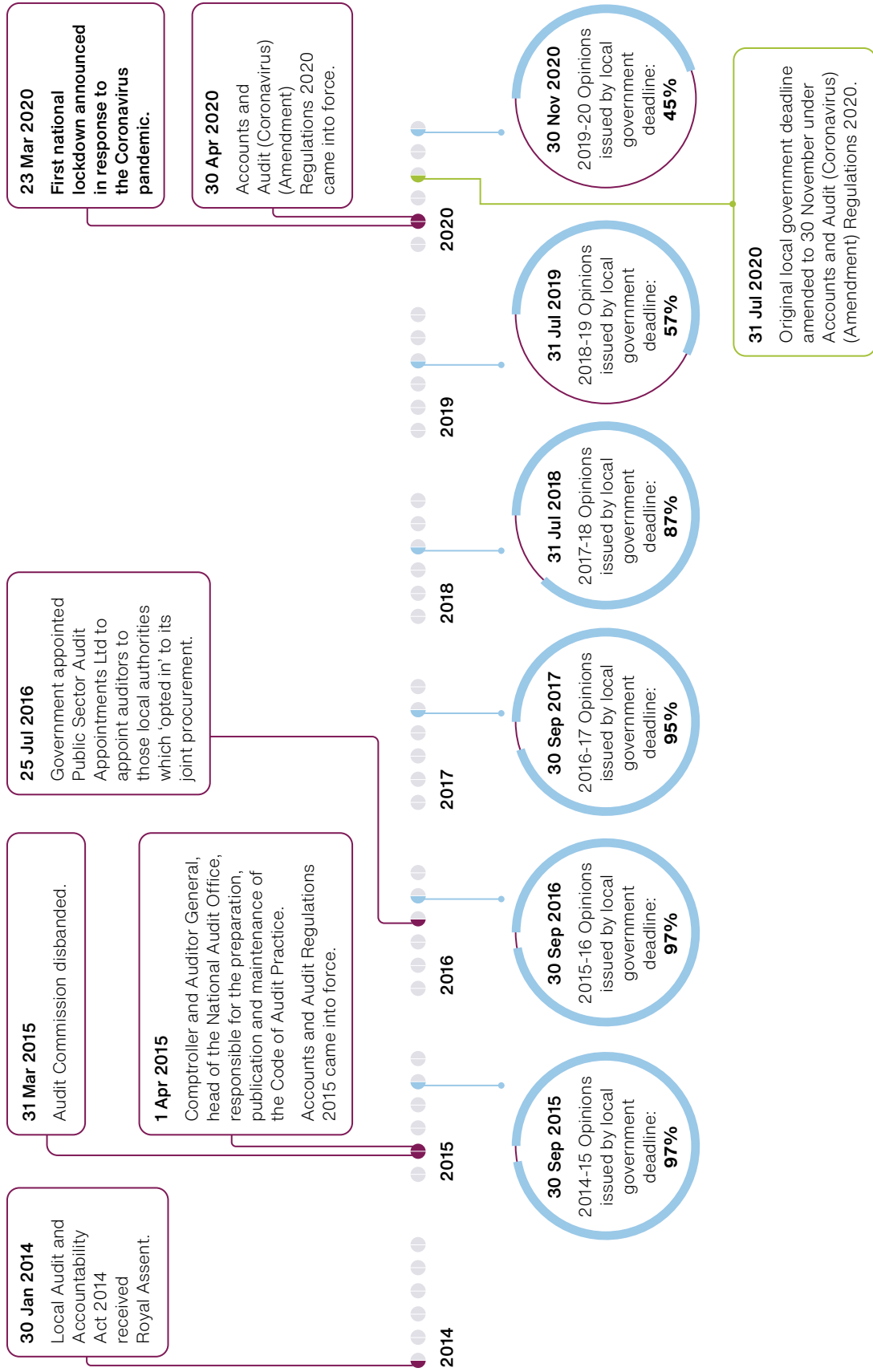
3 The annual governance statement is where local public bodies report on their arrangements to secure value for money, and the effectiveness with which the arrangements are operating. The annual governance statement and the information that supports it are key sources of evidence that local auditors use to consider whether the body has proper arrangements in place.

4 The three PIRs issued are in relation to Nottingham City Council (August 2020), the London Borough of Croydon (October 2020) and Northampton Borough Council (January 2021). The two statutory recommendations were issued to Copeland District Council and South Ribble District Council.

5 HM Government, The Accounts and Audit Regulations 2015, Statutory Instrument 234, 2015. Available at: www.legislation.gov.uk/uksi/2015/234/pdfs/ukxi_20150234_en.pdf

Figure 2
Changes to accounts publication requirements and percentage of opinions delivered on time since 2015

Despite changes to reporting deadlines, audit opinions were largely delivered on time until 2019



Departmental responsibilities for local audit

1.9 The Ministry of Housing, Communities & Local Government (the Department) has oversight of local authorities. The Department’s Accounting Officer System Statement sets out its responsibility to maintain a “set of statutory codes and rules which require councils to act prudently in their spending”.⁶ Local external auditors inform this through their duty to:

- “form an opinion on whether the accounts give a true and fair view, and to conclude on whether the authority has made proper arrangements for securing value for money”; and
- “consider making ‘a report in the public interest’ on any significant matter coming to their notice during the course of an audit which they feel should be brought to the attention of the public”.

Reports in the public interest must be copied to the Secretary of State for Housing, Communities and Local Government (the Secretary of State).

Problems in the local audit landscape

Previous reports from the NAO

1.10 We reported on the effectiveness of the local authority governance system in 2019.⁷ Our report provided a system-level review of key elements of the local accountability framework, including the role played by external audit. Local authorities have faced significant challenges since 2010-11 as funding has reduced and demand for key services has grown. Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. External audit is one of the checks and balances in the system and plays a key role.

1.11 In our 2019 report, we surveyed local authority finance directors (section 151 officers) for their views on external audit.⁸ More than half of the section 151 officers from single tier and county councils responding to our survey indicated that they wanted changes to external audit. These included:

- a greater focus on the value-for-money element of the audit (26%); and
- less of a focus on the valuation of capital assets within auditors’ work on their financial statements (14%).

⁶ Ministry of Housing, Communities & Local Government *Accounting Officer system statement*, November 2020.

⁷ Comptroller and Auditor General, *Local Authority Governance*, Session 2017–2019, HC 1865, National Audit Office, January 2019. Available at: www.nao.org.uk/wp-content/uploads/2019/01/Local-authority-governance.pdf

⁸ Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

1.12 In focus groups for our 2019 report, local authority chief executives and heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance had reduced. Frequently, they linked this to the reduction in the audit fee paid by authorities.⁹

Recommendations from the Committee of Public Accounts

1.13 The Committee of Public Accounts in its May 2019 report, *Local Government Governance and Accountability* pointed out that the Department places great reliance on the work of external auditors, particularly in relation to value-for-money arrangements.¹⁰ However, a number of key representative organisations and councils told the committee that they had concerns about external audit. The Department recognised that the importance of external audit was heightened as council activities become more varied, complicated and commercial and committed to a review of external audit. The committee recommended that the review should ensure that concerns over fee levels and the contribution of external audit were examined fully and rigorously and should assess whether external audit was providing an effective service and meeting the needs of local authorities. The Department committed to addressing concerns and the 'expectations gap' felt by local authorities as part of its review of external audit.¹¹

The Redmond Review

1.14 In June 2019, the Secretary of State asked Sir Tony Redmond to carry out an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The purpose of the review was to test the impact of external audit activity in local government and to look critically at how this helps to demonstrate public accountability, mainly to service users and council taxpayers. Sir Tony's Review also examined transparency in financial reporting of local authorities, and whether the annual accounts can be readily understood by the public.

9 Comptroller and Auditor General, *Local Authority Governance*, Session 2017–2019, HC 1865, National Audit Office, January 2019, paragraph 17. Available at: www.nao.org.uk/wp-content/uploads/2019/01/Local-authority-governance.pdf

10 HC Committee of Public Accounts, *Local Government Governance and Accountability*, Ninety-Seventh Report of Session 2017–2019, May 2019, paragraph 2. Available at: <https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/2077/2077.pdf>

11 HM Treasury, *Government response to the Committee of Public Accounts on the Ninety-Third to the Ninety-Fourth and Ninety-Sixth to the Ninety-Eighth reports from Session 2017–19*, CP 151, July 2019, pp12–15. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819707/CCS207_CCS0719610434-001_Gov_response_to_Public_Accounts_on_the_93_-_98_reports_bookmarked.pdf

1.15 Sir Tony published his review in September 2020.¹² The review set out serious concerns regarding the state of the local audit market and, without questioning whether audits are carried out professionally, the ultimate effectiveness of the work undertaken by audit firms. The review questioned whether audit reports delivered full assurance on the financial sustainability and value for money of every authority subject to audit. The review also set out a concern about the balance of price and quality in the structure of audit contracts and that the current fee structure did not enable auditors to fulfil the role in an entirely satisfactory way. As 43% of audits failed to meet the required deadline for reporting in 2018-19, the review concluded that this signalled a serious weakness in local auditors' ability to meet the expectations set out in legislation. The review made a series of recommendations to the Secretary of State, including creating a new body, the Office for Local Audit Regulation in England.

1.16 The Department responded to the Redmond Review in December 2020.¹³ To address weaknesses in the market for auditing local bodies, the Department has announced it will provide local authorities with £15 million to meet the anticipated rise in audit fees in 2021-22. The additional funding is driven by new requirements on auditors that have arisen since the contracts were originally bid for in 2017, including the 2020 Code of Audit Practice. The funding is also intended to enable local authorities to develop standardised statements of service information and costs, as recommended by the Redmond Review.

1.17 The Department has engaged with key stakeholders from across the local audit sector, including audit firms, councils, regulators and other interested bodies. It recognised that delivering the recommendations in the Redmond Review would require a collaborative effort. The Department set out actions to support market stability, to alleviate some of the immediate funding and timing pressures facing audit firms and local authorities but decided to consider further the central recommendation to establish a new independent regulator for local audit. The Department plans to monitor and review the impact of both its actions, and those of other bodies, on strengthening the local audit framework and the transparency of local authorities' financial reporting. It will consider further actions if necessary. The Department will consider further the Redmond Review's recommendations in spring 2021.

¹² Sir Tony Redmond, *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting* [the Redmond Review], Sir Tony Redmond, September 2020. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf

¹³ Ministry of Housing, Communities & Local Government, *Local authority financial reporting and external audit: government response to the independent review*, December 2020. Available at: www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review

The Kingman Review

1.18 In April 2018, the Secretary of State for Business, Energy and Industrial Strategy asked Sir John Kingman to lead an independent review of the Financial Reporting Council (FRC). Sir John published his review in December 2018.¹⁴ Sir John recommended that the FRC be replaced with an independent statutory regulator, accountable to Parliament, with a new mandate and new powers.

1.19 The Kingman Review commented adversely on the local audit landscape, describing the structure as “fragmented and piecemeal” and as, overall, “insufficient to work adequately to promote and deliver audit quality”. The review noted that public sector specialist expertise was dispersed around different bodies. It found that the structures also meant that no one body was looking for systemic problems, and there was no apparent co-ordination between parties to determine and act on emerging risks.^{15,16}

14 Sir John Kingman, *Independent Review of the Financial Reporting Council* [the Kingman Review], December 2018. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

15 Sir John Kingman, *Independent Review of the Financial Reporting Council* [the Kingman Review], December 2018, para 6.19ff.

16 Sir Donald Brydon CBE, *Assess, assure and inform: Improving audit quality and effectiveness. Report of the independent review into the quality and effectiveness of audit*, February 2019. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

Part Two

Late delivery of local auditor opinions

2.1 This part of the report summarises the overall picture of late delivery of audit opinions across local government in England and the implications both locally and nationally.

Late delivery of 2019-20 audit opinions

2.2 For the 2019-20 financial year, figures from Public Sector Audit Appointments Ltd (PSAA) showed that auditors issued only 220 audit opinions (45%) in time for local bodies to publish their accounts by the revised statutory deadline of 30 November 2020.¹⁷ Despite the additional time the Ministry of Housing, Communities & Local Government (the Department) had allowed, in recognition of the difficulties represented by the COVID-19 pandemic, this meant a deterioration in performance compared with previous years (**Figure 3**). It continued a downward trend, which had accelerated since 2017-18.

2.3 As of 31 December 2020, PSAA data showed that 200 of the 267 audit opinions that were outstanding on 30 November 2020 remained so.^{18,19} Auditors had also yet to issue 26 audit opinions relating to 2018-19. There are frequently local circumstances that prevent the delivery of all audit opinions by the due date, such as complex technical accounting issues, or the consideration of objections to the accounts made by local electors. However, over the three years from 2014-15, audit opinions were largely issued on time (Figure 3). When the statutory reporting deadline moved forward by two months, from 30 September 2018 to 31 July 2018 for 2017-18, auditors still issued 87% of audit opinions in time for bodies to meet their publication deadline.

2.4 Since 2017-18, there has been a significant reduction in the number of audit opinions delivered on time. **Figure 4** on page 20 shows that timeliness fell across all types of local authority, while remaining broadly static across police and fire bodies and other miscellaneous bodies.

17 The total of 220 opinions delivered includes six opinions at bodies which appointed their auditor directly, rather than through PSAA collective arrangements.

18 The total of 200 outstanding opinions includes one opinion at bodies which appointed their auditor directly, rather than through PSAA collective arrangements.

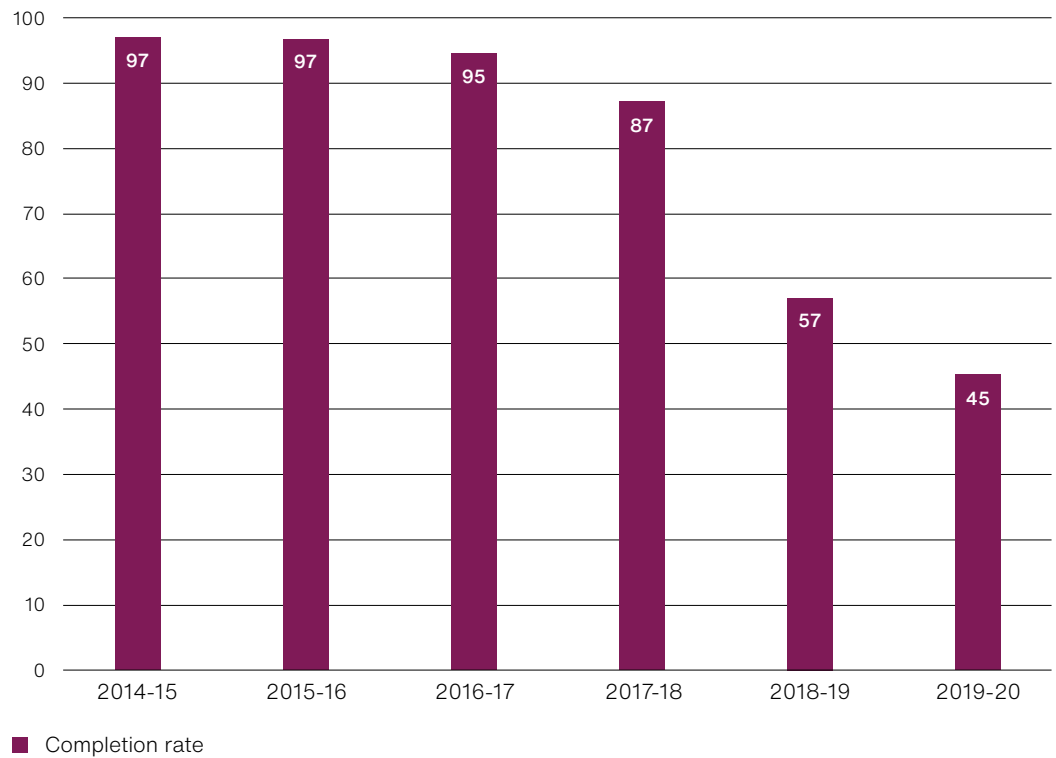
19 The total of 267 outstanding opinions includes three opinions at bodies which appointed their auditor directly, rather than through PSAA collective arrangements.

Figure 3

The proportion of local government bodies publishing accounts including an audit opinion by the statutory accounts publication deadline

Since 2015, there has been a marked decline in local government bodies publishing accounts including an audit opinion by the statutory deadline

Proportion of opinions issued by the accounts publication deadline



Note

1 This represents the proportion of audits that were completed by the statutory deadline. The number of bodies subject to audit under the Code of Audit Practice decreased from 509 in 2014-15 to 487 in 2019-20.

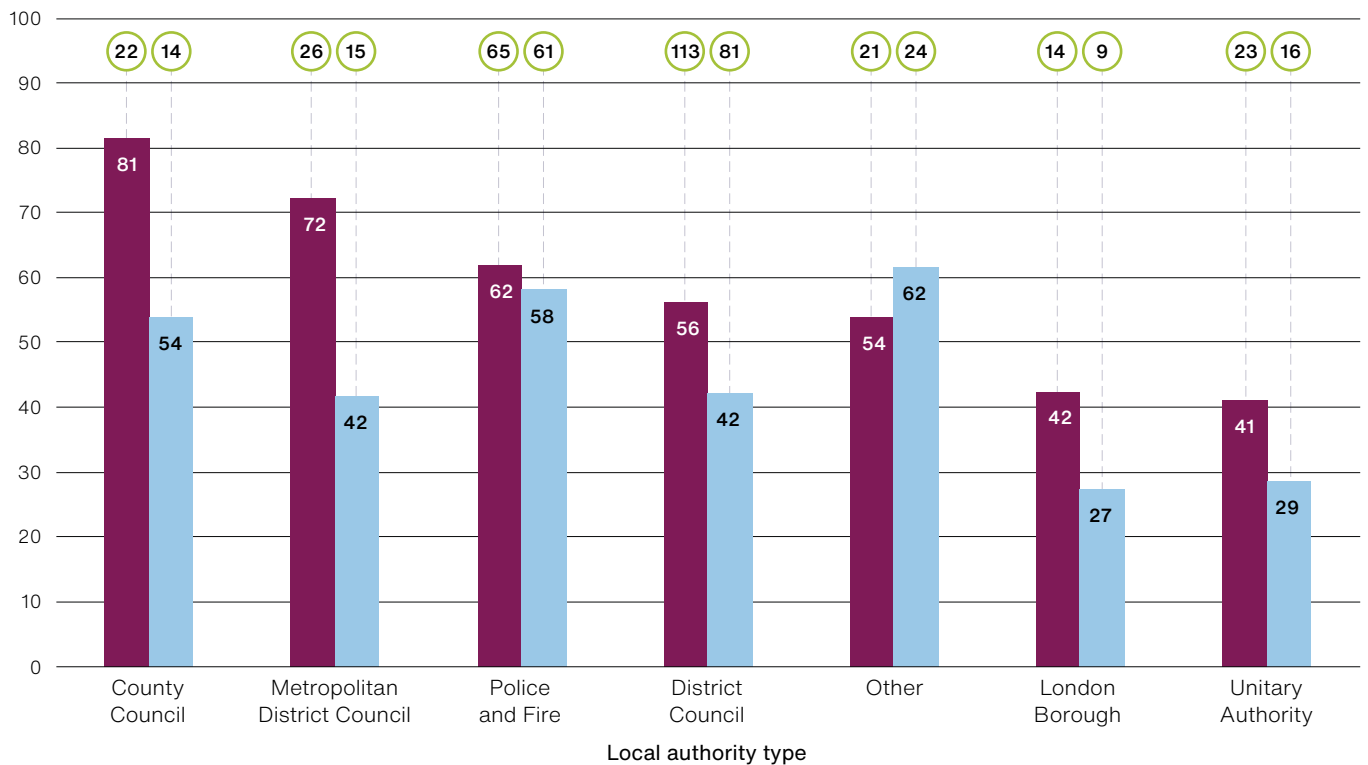
Source: National Audit Office analysis of Public Sector Audit Appointments Ltd published data

Figure 4

Proportion of local government bodies publishing accounts including an audit opinion by the statutory accounts publication deadline, by type, in 2018-19 and 2019-20

The timeliness of reporting has deteriorated across county councils, district councils, and unitary authorities

Audits completed by the deadline (%)



- 2018-19
- 2019-20
- Number of audits

Note

1 Data are based on 497 2018-19 and 487 2019-20 audits. The bar-labels indicate the number of audits completed.

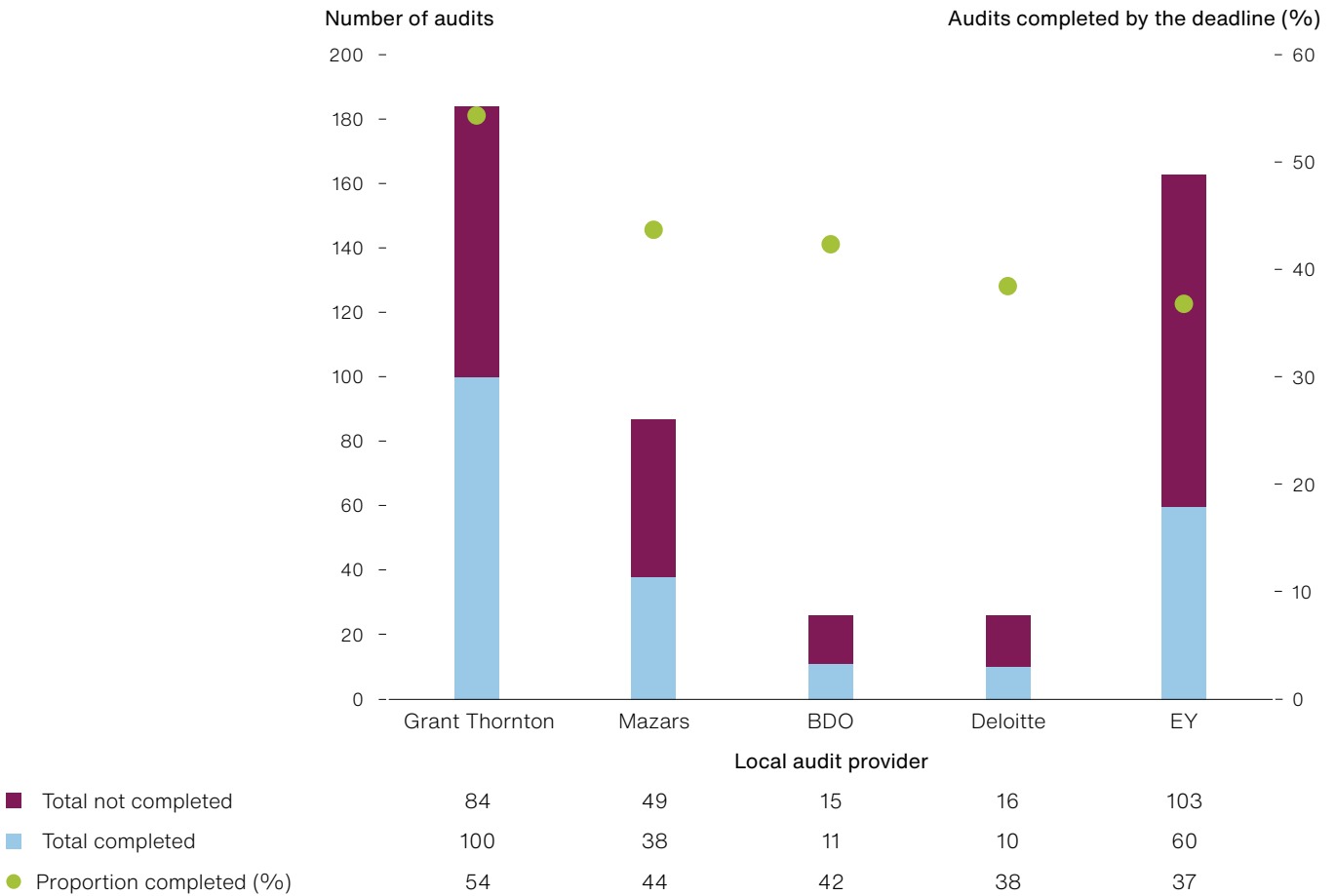
Source: National Audit Office analysis of Public Sector Audit Appointments Ltd published data

2.5 There is variation in the timeliness of delivery of audit opinions between audit firms carrying out local audits, but no individual audit firm accounts for the deterioration in timeliness. This indicates wider systemic factors are affecting the decline in timeliness (see paragraph 2.15). **Figure 5** shows how timeliness varied between audit firms in 2019-20, relative to the size of each audit firm’s portfolio of audits.

Figure 5

Number of local government 2019-20 audits publishing accounts including an audit opinion by the 2020 statutory deadline

Less than half of audits were completed in time to allow publication of accounts including an audit opinion by the statutory accounts publication deadline, but the completion rate varied by firm



Notes

- 1 KPMG LLP also has one local audit client, which published accounts including an audit opinion by the 30 November accounts publication deadline.
- 2 There were 487 audits in total in the period covered. Of these 220 were completed in time to allow publication of accounts including an audit opinion by the statutory accounts publication deadline.

Source: National Audit Office analysis of Public Sector Audit Appointments Ltd published data

Effect of the late delivery of audit opinions

Effect on local authorities' governance of late delivery

2.6 We sought views from stakeholder bodies, including those representing local authorities and treasurers' societies, to gain their views on the implications of the late delivery of audit opinions for local government. There are significant implications for local authorities, and for local audit, of late delivery of audit opinions. Delays were affecting the ability of local authority finance functions to plan and manage the preparation and production of accounts, and the audit of those accounts efficiently and around other priorities. For local authorities to plan and manage their services and finances effectively, they need accurate and reliable financial information. A key element of the financial planning and budgeting process is the assurance which the audit process provides.

2.7 The lack of timely external audit assurance has a direct impact on affected local authorities' planning processes, as most local authorities commence their annual budget planning during the autumn of the preceding year. Late delivery of an audit opinion makes it harder for local authorities to plan their budgets for the forthcoming year with certainty.

Impact on central government

2.8 Late audit opinions on local authorities can also affect the audits of central government departments. We consulted directors of Financial Audit within the National Audit Office (NAO) covering central government departments and agencies, to determine whether the progress of any central government audits had been affected by the late delivery of local auditor reporting on local government. Where a local authority audit includes a pension fund, local auditors are often asked to undertake work to provide the auditors of other bodies, which are also members of the fund, with assurances over the valuation of assets and liabilities within the fund. In 2019-20, pensions assurances for 20 central government arm's-length bodies were delayed.

2.9 The 2019-20 audit of the Care Quality Commission within the Department of Health & Social Care group was delayed until February 2021 due to issues with the audit of the Local Government Pension Schemes. The NAO needed to take assurance from this audit as the accounts of the Care Quality Commission set out the Commission's share of the assets and liabilities of the Local Government Pension Scheme. Without the assurance from the audit of the Local Government Pension Scheme, the NAO was unable to finalise its audit. The NAO completion of its 2019-20 audit of the Department for Environment, Food & Rural Affairs was also delayed by more than two months, due to a delay in when the auditors of a Local Government Pension Scheme were able to provide assurance. Audits of the Ministry of Justice and the Department for Digital, Culture, Media & Sport were delayed due to delays to the audits of bodies which were large enough to be significant to the group.

2.10 Some departments also take a degree of assurance from local audit opinions that authorities, to whom they provide funding, are properly managing and accounting for their resources. Where reporting of audit opinions is delayed, this can mean that departments do not have the level of assurance they would usually expect to inform their own governance processes and oversight of their sectors. The Department uses the results of local authority audits as part of its oversight of local government. Delays in audit opinions mean that the Department has less assured information on the local government sector than usual. The Department used to consider that the late delivery of an audit opinion indicated a concern about the local authority affected. A large number of late audit opinions this year meant that they were no longer necessarily a useful signal of concern about a local authority. The Department mitigated the impact of this by using a range of sources of information in its assurance activity.

2.11 The Department uses figures from local authority audited accounts to feed into some aspects of the local government finance system, for example as part of the business rate retention system. The absence of local authority audited figures can lead to delays in the publication of data and the processing of payments and means that the Department may have to make subsequent adjustments over time as audited data become available, or find a workaround given it is using unaudited figures.

2.12 The Whole of Government Accounts (WGA) is a set of financial statements prepared in accordance with the Government Resources and Accounts Act, 2000 and International Financial Reporting Standards (IFRS), as adapted and interpreted by the Financial Reporting Manual. The WGA brings together information on the financial performance and position of more than 9,000 organisations across the UK public sector, including central government departments; local authorities; devolved administrations; the NHS; academy schools; and public corporations such as the Bank of England. HM Treasury published the WGA 2018-19 on 21 July 2020, more than 15 months after the end of the financial year.²⁰

²⁰ HM Treasury, *Whole of Government Accounts 2018-19*, HC 500, June 2020. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/902427/WGA_2018-19_Final_signed_21-07-20_for_APS.pdf

2.13 In the current WGA, the delay in completion of audits of local government bodies has led to a lower-quality picture of the financial performance and position of the UK public sector than in the previous year. HM Treasury was expecting to publish the WGA 2019-20 in June 2021, one month earlier than for the WGA 2018-19 but has indicated to the Committee of Public Accounts that there will be a delay.²¹ Delays in local government audit, and the extension of the administrative deadlines for central government accounts, will lead to delays in HM Treasury receiving returns for the WGA and present a significant challenge to the ambition of publishing earlier.²²

Effect on the audit firms of late delivery of audit opinions

2.14 For audit firms delivering the audits of local bodies, delays in completing these audits affect the planning and progress of their annual work programmes. Many of the audit firms employed on local audit work have several clients, with varying reporting deadlines. Audits of local NHS bodies usually happen before audits of local authorities, which happen before audits of the higher education sector. Delays in the audits of local authorities therefore affect the delivery of other audits and disrupt the audit firms' usual cycle of audit planning. An audit firm cannot plan fully its year's audits until the previous year's audits are complete.

Factors affecting the timeliness of local auditor reporting

Underlying reasons for late delivery of audit opinions

2.15 We sought views from audit firms and stakeholder bodies, including those representing local authorities and treasurers' societies, to gain their views on the main factors that explain the declining performance of the timeliness of local auditor opinions on local government in England since 2015. Our analysis of the responses received showed some common, and some differing, understandings of the main causes of the delays, how these were inter-related and the complexities in overcoming the causes and the possible timescale involved.

21 Letter HM Treasury to Chair of HC Committee of Public Accounts, January 2021. Available at: <https://committees.parliament.uk/publications/4862/documents/48804/default/>

22 HC Committee of Public Accounts, *Whole of Government Accounts 2018-19*, Thirty-Seventh Report of Session 2019-2021, HC 655, January 2021. Available at: <https://committees.parliament.uk/publications/4339/documents/44418/default/>

Increasing workload and pressures of regulation

2.16 Our consultation responses highlighted that both staff in the finance function of local bodies and staff in local auditors had been required to perform additional work in response to increasing requirements from regulators. Some respondents noted that the needs of IFRS, along with the increased expectations from the Financial Reporting Council (FRC) following the high profile corporate failures such as Carillion, had combined to produce a significant increase in audit work, such as on asset and pensions valuations, reliance on timely responses from valuers, and queries and information requests on valuations. In general, finance staff found the changing scope of the audit less useful.

The limited availability of enough staff with relevant qualifications, skills and experiences

2.17 Not having enough staff with the right qualifications, skills and experience was an issue common both to local public bodies and audit firms and their capacity to carry out and complete all necessary work before the 30 November 2020 deadline. Some respondents said that there had been a net loss of qualified staff from both the local finance and local audit sectors.

2.18 Local authorities reported increasing pressures, especially in maintaining staff capacity and capability within their finance functions. The limited availability of sufficient staff with the relevant qualifications, skills and experience to deal with the complexity of the work, to put together underlying working papers and to prepare the financial statements to the required standards within the time available for submission to the external auditors, had made the preparation of accounts increasingly challenging. The limited availability of finance function staff had also affected the ability to respond promptly and efficiently to queries raised during audits. Some local bodies had to address staff shortages and high turnover through agency staffing.

2.19 From the audit firms' perspective, one of the factors reducing the availability of staff was the relative unattractiveness of local public body audit work compared with alternative audit opportunities. We also heard that some staff were leaving the audit profession entirely, moving into either other non-audit roles within these firms, or into work in the public sector or other corporate roles. We were told that there continued to be a high staff turnover in audit firms, particularly among qualified accountants. This was sometimes associated with regular changes to the membership of the audit teams at local bodies, leading to some audit work being re-performed, and finance function staff having to familiarise new audit staff. We heard of many underlying factors for the loss of qualified staff, which included that some staff found the audit work stressful, were demotivated by the relatively low rewards and had a perception that audits of local public bodies were not valued highly by key stakeholders.

Management of audit work required to meet the 30 November 2020 deadline

2.20 Our consultation indicated that staff availability problems were in some cases exacerbated by how local bodies and audit firms planned and managed the completion of the work required to meet the deadline. Some respondents considered that competing workload pressures, both within the finance function and elsewhere in the local bodies, diverted staff resources from completing working papers and preparing accounts. Our consultation with audit firms heard from some that, while they had planned their work to deliver the bulk of their audit opinions by the expected date, complex technical issues had been a significant factor in delaying sign-off. This included auditing local bodies' investments in commercial enterprises. Some audit firms also suggested that the quality of the processes and control environment within the finance functions of local bodies also affected their preparedness for audit.

2.21 Respondents also suggested that some audit firms had not considered the 30 November 2020 as a firm deadline to be met and had not planned and managed resources to achieve that date. While some audit firms emphasised that they had intended this to be a firm deadline, our respondents noted that failure to meet the deadline had not had a major impact on the audit firms. In contrast, responses indicated the audit firms were concerned more about ensuring they had completed work to professional standards, even if this took them longer. While respondents commented that there was no direct incentive for timely completion of audit work in procurement arrangements, PSAA emphasised that its contractual arrangements focus on delivery of audits that comply with the Code of Audit Practice, as in its view it does not have the power to require contractually that an audit opinion be delivered by a particular date.

The impacts of COVID-19

2.22 The paragraphs above have indicated that problems in the local audit landscape are longer term than simply the effect of the COVID-19 pandemic. Nonetheless, for the most recent year, respondents noted that COVID-19 had affected the ability of both local bodies and audit firms to make progress on their respective responsibilities. Staff sickness and staff isolating had reduced staffing levels. Working from home arrangements had also affected some access to records and some communications between finance function staff and audit staff. This had been exacerbated by additional workload related to COVID-19, such as oversight of the high volume of work on COVID-19-related grants to local organisations and support mechanisms for individuals that local bodies had to put in place, and in familiarisation with guidance announced.

The implications for governance

2.23 Delays to the preparation of local bodies' accounts, and delays to the delivery of auditor opinions on accounts, impact internally on the management of these bodies and on governance and the stewardship of public funds. Auditors may make recommendations aimed at reducing risks and improving financial controls. Delays to the auditor opinion and the issue of recommendations could mean that actions to improve financial efficiency and resilience are themselves delayed and less effective. Delays in the preparation of accounts and in the delivery of auditor opinions risk knock-on repercussions on the planning and delivery of future programmes of work. Overcoming this cascade effect and returning to a stable footing may be challenging, given the limited capacity of finance functions in local bodies, the limited capacity of the audit market and competing demands on resources.

2.24 If delays in audit opinions continue for several years, the issues affecting local and central accountability will persist. This raises the risk of undermining the value and purpose of audit in the longer term. Delays affect the assurances that can be given to taxpayers and elected representatives. Stakeholders and users of the accounts cannot gain timely assurance over the authority's financial information to use it with confidence to inform decision-making.

Quality of local audit

2.25 The FRC is the independent body responsible for monitoring the quality of major local audits in England.²³ The Institute of Chartered Accountants in England and Wales (ICAEW) monitors the quality of the remaining local audits.

2.26 Following the end of the transitional arrangements after the closure of the Audit Commission, the FRC undertook its first cycle of reviews under the new arrangements for the financial year ended 31 March 2019. The FRC's Audit Quality Review (AQR) team reviewed 15 major local audits across the firms supplying local audit, covering both the financial statement opinion and the value-for-money arrangements' conclusion work.

²³ The Local Audit (Professional Qualification and Major Local Audit) Regulations 2014 define a 'major local audit' as having total income or expenditure of at least £500 million; or for a Local Authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

2.27 The AQR team's review of the audit opinion on financial statements found two audits that required significant improvements and seven that needed improvements. None of the value-for-money arrangements' conclusions which the AQR team reviewed required more than limited improvement. The FRC published its inspection findings in October 2020.²⁴ Areas where improvements in audit quality were needed included:

- the valuation of property (including investment property);
- sufficiency of audit procedures to confirm that all expenditure transactions occurred and were recorded appropriately;
- the auditor's response to fraud risks;
- consideration of the risk that money owed to the authority might not be collectable in full (impairment of receivables);
- valuation of assets supporting pension funds; and
- the effectiveness of the Engagement Quality Control review (an arrangement whereby a second audit engagement lead is used to ensure that key audit judgements are reviewed and challenged effectively).

2.28 The FRC, in its inspection findings report in 2020, commented: "The overall results for our inspection of 15 financial statement audits across the seven firms are concerning, with just 40% of audits requiring no more than limited improvement (64% in 2018-19)."²⁵ From its quality reviews, however, the ICAEW commented "The audit work reviewed for 2019-20 was generally of a good standard. Eleven reviews were satisfactory/acceptable, with one requiring improvement. The work to support the value-for-money conclusion was satisfactory on all files reviewed."²⁶

2.29 The FRC also highlighted in its report that for 2019-20 it selected for inspection an increased number of higher risk audits, but its findings still showed that while it was important for audits to be completed on time, auditors must also be mindful of the clear expectation that the quality of audit work must meet standards sufficient to comply with the professional standards that apply to local public audits.^{27,28}

24 Financial Reporting Council, *Major local audits – audit quality inspection*, October 2020. Available at: www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf

25 Financial Reporting Council, *Major local audits – audit quality inspection*, October 2020.

26 Financial Reporting Council, *Major local audits – audit quality inspection*, October 2020.

27 Financial Reporting Council, *Major local audits – audit quality inspection*, October 2020.

28 Both the 2015 and 2020 Codes of Audit Practice require auditors to comply with International Standards on Auditing (ISAs).

Appendix One

Our audit approach

1 This study examined the timeliness of local auditor reporting for English local public bodies' financial statements, covering the 2019-20 financial year, against the deadline to report audit opinions by 30 November 2020. This examination was prompted by the declining performance in reporting audit opinions over time, despite the relaxation of the deadline for 2019-20. We carried out our fieldwork between January and February 2021.

2 The report covers:

- the local audit framework;
- the timeliness of 2019-20 audits;
- the effects of auditor opinions being completed late; and
- the factors affecting the timeliness of local auditor reporting since 2019.

3 Our evidence base is summarised in Appendix Two.

Appendix Two

Our evidence base

1 In carrying out this examination, we drew on a variety of evidence sources. We analysed published and unpublished data from Public Sector Audit Appointments (Ltd) (PSAA) on the late delivery of audit opinions on English local public bodies' financial statements, covering the 2019-20 financial year, against the deadline to report by 30 November 2020. We also carried out a time series analysis against the delivery of audit opinions, to understand the emergence of the delays.

2 We undertook a short survey of local auditor firms, to gather their views about the main issues delaying the issue of audit opinions, the interdependencies involved in auditing financial statements, and how to tackle these issues. We received views from:

- BDO;
- Deloitte;
- EY;
- Grant Thornton; and
- Mazars.

3 We undertook a short survey of local authority treasurer societies, and other key stakeholders to gather their views about the main effects of late deliveries of audit opinions and on audit quality. Treasurer societies which provided views included:

- Society of District Council Treasurers;
- Society of London Treasurers;
- Society of Municipal Treasurers; and
- Society of Unitary Treasurers.

4 Key stakeholders which provided views included:

- Chartered Institute of Public Finance and Accountancy;
- DSFire;
- Financial Reporting Council;
- Institute of Chartered Accountants of England and Wales;
- Local Government Association;
- Police National Network; and
- Public Sector Audit Appointments Ltd.

5 We consulted directors of Financial Audit within the National Audit Office covering central government departments and agencies to determine whether the progress of any central government audits had been affected by the late delivery of local auditor reporting on local government audits. Our consultation aimed to establish the audits affected, the lengths of delay, the understanding of the key causes of the delays and the impacts of the delays on the audited body and on the work of the National Audit Office more generally.

6 We consulted the Ministry of Housing, Communities & Local Government to discuss the value of audit and the impacts of late delivery of audit opinions on departments, such as on accountability, management and oversight, and risk management.

7 We carried out a systematic review of published sources covering matters relating to local audit opinions. This included:

- *Local authority governance*, Comptroller and Auditor General's Report.²⁹ This report provided a system level review of key elements of the local accountability framework, including the role played by external audit.
- *Local Government Governance and Accountability*, Committee of Public Accounts report.³⁰ The committee's report examined the importance of external audit and made recommendations for the scope of a review of external audit.
- *Government response to the Committee of Public Accounts Ninety-Seventh Report of Session 2017-19*, Ministry of Housing, Communities & Local Government: *Local Government Governance and Accountability*.³¹ This set out how the Government would respond to recommendations made by the Committee of Public Accounts in its report *Local Government Governance and Accountability*.

29 Comptroller and Auditor General, *Local Authority Governance*, HC 1865, 2017-2019, National Audit Office, January 2019.

30 HC Committee of Public Accounts, *Local Government Governance and Accountability*, Ninety-Seventh Report of Session 2017-2019, May 2019.

31 HM Treasury, Government response to the Committee of Public Accounts on the Ninety-Third to the Ninety-Fourth and Ninety-Sixth to the Ninety-Eighth reports from Session 2017-19, CP 151, July 2019, pp12-15.

- *Independent review into the oversight of local audit and the transparency of local authority financial reporting*, Sir Tony Redmond.³² Sir Tony published an independent review of the effectiveness of local audit and the transparency of local authority financial reporting.
- *Local authority financial reporting and external audit: government response to the independent review*.³³ This set out the Ministry of Housing, Communities & Local Government's actions in response to recommendations in Sir Tony Redmond's review.
- *Independent Review of the Financial Reporting Council*, Sir John Kingman.³⁴ Sir John published proposals for the Financial Reporting Council covering governance, transparency, and independence.
- *Assess, assure and inform: Improving audit quality and effectiveness*, report of the independent review into the quality and effectiveness of audit, Sir Donald Brydon CBE.³⁵ The report set out recommendations aimed at stimulating improved quality and effectiveness of audit in the UK.
- *Whole of Government Accounts 2018-19*, Committee of Public Accounts, January 2021.³⁶ The committee's report examined how to make the Whole of Government Accounts more forward looking with respect to risks to public finances.
- *Major local audits – audit quality inspection*, Financial Reporting Council, October 2020.³⁷ This report set out the principal findings from the Audit Quality Review 2019/20 inspection of the seven audit firms completing major local audits in England.

32 Sir Tony Redmond, *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting*, September 2020.

33 Ministry of Housing, Communities & Local Government, *Local authority financial reporting and external audit: government response to the independent review*, December 2020.

34 Sir John Kingman, *Independent Review of the Financial Reporting Council*, December 2018.

35 Sir Donald Brydon CBE, *Assess, assure and inform: Improving audit quality and effectiveness. Report of the independent review into the quality and effectiveness of audit*, February 2019.

36 HC Committee of Public Accounts, *Whole of Government Accounts 2018-19*, Thirty-Seventh Report of Session 2019–2021, HC 655, January 2021.

37 Financial Reporting Council, *Major local audits – audit quality inspection*, October 2020.

8 We carried out a systematic review of published sources that covered matters relating to the use of audited accounts of local bodies and on the impact of delays to audit reports on local authorities and to the users of accounts. Our review examined how Government and others use, or should use, annual reports and accounts from local authorities and the importance to Government and local authorities in giving assurance about local authority governance. We also examined published sources covering the use of audited accounts of local bodies by external parties and the potential impact of delays to these audited accounts on external parties. We also looked at comparative evidence about any delays to audited accounts of central government organisations and impacts on the governance of the public sector and their use by external parties.

9 We considered evidence from stakeholders submitted to the National Audit Office through our website. This helped us gain their understanding of the main issues relating to the late delivery of audit opinions.

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