



National Audit Office



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

Ministry of Housing, Communities & Local Government

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**REPORT**

**by the Comptroller  
and Auditor General**

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**SESSION 2019–2021**

**16 MARCH 2021**

**HC 1243**

## Key facts

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**£100bn**

approximate net revenue  
spending in 2019-20 by  
local government

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**57%**

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

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**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

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- 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.