



National Audit Office



REPORT

Progress update: Timeliness of local auditor reporting on local government in England

Department for Levelling Up, Housing & Communities

SESSION 2022-23
25 JANUARY 2023
HC 1026



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National Audit Office

Progress update: Timeliness of local auditor reporting on local government in England

Department for Levelling Up, Housing & Communities

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 23 January 2023

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House
of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

18 January 2023

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Key facts

9%

proportion of local government bodies receiving opinions in time to publish audited accounts for 2020-21 by the extended statutory publication deadline of 30 September, as reported by Public Sector Audit Appointments Ltd

12%

proportion of local government bodies receiving opinions in time to publish audited accounts for 2021-22 by the extended statutory publication deadline of 30 November, as reported by Public Sector Audit Appointments Ltd

632

cumulative number of audit opinions outstanding for all years as at 30 November 2022, as reported by Public Sector Audit Appointments Ltd

35%

proportion of local government bodies who had not received opinions in time to publish 2020-21 audited accounts 12 months after the statutory deadline, as reported by Public Sector Audit Appointments Ltd

5

number of years from 2023-24 for which the government has committed to extend the statutory accounts publication deadline to 30 September from 31 July

1

net increase in the number of firms successful in securing an audit contract from Public Sector Audit Appointments Ltd, following the 2023-24 to 2027-28 procurement

59%

market share by value of the top two audit firms with contracts to audit local government bodies, for the period 2023-24 to 2027-28 (down from 70% in the previous period)

150%

anticipated increase in fees which local government bodies are likely to experience under new contractual arrangements for the period 2023-24 to 2027-28 compared to 2022-23 fees

£60 million

additional funding pledged to local government bodies over four years from 2021-22, to support financial reporting and increased audit costs

2024

earliest expected year for establishment of the Audit, Reporting and Governance Authority, which will act as system leader for local audit

Summary

1 Local government audit provides transparency and accountability to both taxpayers and their local elected representatives. It provides authorities with accurate and reliable financial information with which to plan and manage their services, and finances, effectively. It also provides assurance to the wider public sector, supporting the audit of certain central government departments and the Whole of Government Accounts.¹

2 The arrangements for local audit in England changed significantly following the abolition of the Audit Commission in 2015. From 2018-19, local government bodies appointed private firms to undertake their audits, either directly or through a national scheme. Other responsibilities for regulation and standard setting were spread across multiple organisations. The Department for Levelling Up, Housing & Communities (DLUHC) also sought to compress the timetable for accounts production and audit from 2017-18, to increase public interest in local accounts and encourage more rigorous in-year monitoring.

3 Since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. We first reported on this in 2021, when 45% of accounts for 2019-20 were published by the deadline, down from 97% in 2015-16. This report provides an update on developments since then, including performance on audit delivery for 2020-21 and 2021-22.

Recent reports on the local audit system

4 Our 2021 report *Timeliness of local auditor reporting on local government in England, 2020* described how the COVID-19 pandemic had a significant impact on the production and audit of accounts for 2019-20.² However, we also noted that the pandemic exacerbated problems which already existed in the local audit landscape, including shortages of experienced staff in both local authority finance teams and audit firms, a relative lack of attractiveness of local government audit as a career, and increasing levels of work for finance and audit staff due to increased focus on audit quality findings.

¹ The Whole of Government Accounts (WGA) consolidates the audited accounts of more than 10,000 organisations across the public sector to produce a comprehensive, accounts-based picture of the financial position of the UK public sector.

² Comptroller and Auditor General, *Timeliness of local auditor reporting on local government in England, 2020*, Session 2019–2021, HC 1243, National Audit Office, March 2021.

5 In July 2021, the Committee of Public Accounts (PAC) published *Local auditor reporting on local government in England*. PAC emphasised a pressing need for system leadership for local public audit but noted that the Audit, Reporting and Governance Authority (ARGA),³ the body due to replace the Financial Reporting Council (FRC) and which DLUHC proposed as local audit's future system leader, would not be set up until 2023 at the earliest. PAC emphasised that DLUHC had to take urgent steps to address problems that could not wait for ARGA to be in place.

6 In a subsequent report on local government finance, PAC concluded that DLUHC had not acted with sufficient urgency, nor had it set out an overarching plan and timetable, to address severe and pressing problems with the local government audit market. PAC highlighted that DLUHC's oversight of local government finance relied on a system of local accountability, which was being hampered by "shockingly late" audit opinions.

About this report

7 This report provides a factual update on local auditor reporting since our March 2021 report. We set out:

- an up-to-date position on the timeliness of audit opinions issued on local government bodies in England (local authorities, local police bodies, local fire bodies) and other bodies (combined authorities, functional bodies, local transport, national parks authorities, pensions authorities and waste disposal authorities);
- an assessment of the impact of delays to local government audit opinions; and
- the steps government and others have taken to address concerns reflected in PAC's 2021 and 2022 recommendations (see Appendix Two). These concerns covered the need to:
 - support the local audit market;
 - increase the supply of qualified auditors; and
 - reform the local audit system.

³ The Audit, Reporting and Governance Authority is the proposed audit regulator to replace the Financial Reporting Council and to become system leader for local audit.

8 Our report draws on published evidence and data, from DLUHC, the FRC and Public Sector Audit Appointments Ltd (PSAA).^{4,5} We have not undertaken new research in the preparation of this report and, while this report provides an update on actions taken since 2021, it does not evaluate the sufficiency or effectiveness of them. While PSAA data allow us to show the number of audit opinions issued on time, we have no published information that allows us to comment on the performance of local government bodies themselves in publishing draft accounts to the timetables expected by DLUHC, or comment on the quality of those draft accounts as submitted for audit. Our study methods are described in full in Appendix One.

Key findings

Timeliness of audits

9 The timely completion of local audits fell to 9% for 2020-21. Nine per cent of local government bodies received opinions in time to publish audited 2020-21 financial statements by the 30 September deadline. This was a significant reduction from 45% for 2019-20, even allowing for the tighter publication deadlines compared with the previous year. DLUHC effectively provided a two-month window for completion of audit opinion work on 2020-21 draft accounts, rather than three for 2019-20. In November 2021, PAC expressed its “shock and concern” at this performance (paragraphs 2.6 and 2.7).

10 Performance on timely completion of 2021-22 audits was 12% and the backlog of outstanding audit opinions grew to 632. Only 12% of local government bodies received opinions in time to publish audited 2021-22 financial statements by the deadline, despite a further extension of the publication deadline to 30 November 2022. This allowed a potential four months for auditors to complete their opinion work on the draft financial statements. By the November deadline, PSAA reported the number of delayed audit opinions to be 632. Some 35% of local government bodies had not received opinions in time to publish audited accounts for 2020-21, one year after their original deadline (paragraphs 2.8 and 2.9).

4 The Financial Reporting Council monitors the quality of major local audits in England and recognises accountancy institutes as Recognised Supervisory Bodies with which audit firms must register before being appointed by local bodies.

5 Public Sector Audit Appointments Ltd is responsible for securing efficient and effective arrangements for the independent appointment of auditors and setting fees on behalf of local bodies who opt into their national scheme.

11 Delays to local government audit opinions continue to have impacts elsewhere in the public audit system. In turn, delays in one sector disrupt audit firms' planning and delivery for the other sectors. Issues include:

- delays to the certification of central government accounts that have material pensions valuations. The Ministry of Justice (MOJ) and the Department for Digital, Culture, Media & Sport (DCMS) both have a number of agencies or arm's-length bodies with material Local Government Pension Scheme liabilities. The National Audit Office (NAO) requires local auditor assurances over these liabilities in order to certify these organisations' accounts and the departmental accounts they feed into. Delays to these local auditor assurances contributed to MOJ and DCMS accounts for 2021-22 being certified between four and five months after the Parliamentary summer recess;
- delays in publication and risks of reduced quality for the Whole of Government Accounts. Local audit delays were one of several factors affecting the 2019-20 Whole of Government Accounts, which were certified 26 months after the year end and five months later than the statutory deadline. PAC reported in 2022 how local government data that were unaudited or missing, due to local audit delays, risk adversely affecting the quality of the accounts and any insights based on them; and
- adverse impacts on NHS bodies which rely on the same audit market as local government bodies. NHS bodies have reported growing concerns about the capacity of their external auditors, resulting in the auditors carrying out fewer interim audits, which puts pressure on the audit of final accounts. They also report concerns around the attractiveness of the market to audit providers and the capacity of NHS finance staff to meet accounts preparation timetables (paragraphs 2.10 to 2.14).

12 DLUHC and other bodies in the local audit system have made a range of interventions intended to support timeliness in the near term. We temporarily relaxed our Code of Audit Practice requirements about the timing of audit reporting on value-for-money arrangements to allow auditors to focus on accounts opinion work. HM Treasury raised the threshold above which local government bodies are required to submit audited data returns for Whole of Government Accounts. DLUHC and the Local Authority Code Board have also deferred the requirement for local government to adopt new statements and accounting standards while resource pressures continue to affect performance (paragraph 2.15).

13 DLUHC has not yet set out a comprehensive timetable for restoring timely audited accounts, but it has said it will retain extended accounts publication deadlines for another five years. PAC requested that DLUHC produce a detailed timetable by which it expects to restore timely audited accounts. DLUHC has previously explained that local audits would take longer to get back on track than other public sector and corporate audits because the issues affecting local audit pre-dated the COVID-19 pandemic and had a wide range of causes. In December 2021, DLUHC announced that the deadlines for publication of audited accounts would continue to be extended to 30 September to 2027-28. DLUHC has since provided dates for the expected delivery of a range of elements designed to help address the delays in local audit (paragraph 2.16).

Action to tackle the challenges in local audit

Supporting the local audit market

14 A new procurement in 2022 to appoint local auditors for the 2023-24 to 2027-28 period provided an opportunity to increase the commercial attractiveness of local audit. Responding to market and sector feedback about concerns over supply and performance, PSAA selected contract award criteria that prioritised quality over price. Price considerations represented only 20% of bid scoring in 2022 compared with 50% in its previous procurement (paragraphs 3.2 and 3.3).

15 Following its procurement, PSAA has advised local government bodies to expect fee increases of 150% dependent on the level of work in the first year of the new contracts. DLUHC had already announced funding totalling £60 million for local government to help with the costs of strengthening financial reporting and increased auditing requirements. This comprised £15 million for 2021-22 and £45 million over the following three years. PSAA requested in October 2022 that central government consider providing further support to local government bodies to help fund this expected increase in audit fees (paragraph 3.4).

16 PSAA intended its 2022 procurement to encourage new audit suppliers to enter the market. In 2021, PAC highlighted that two firms shared 70% of the market by value, with the risk of a “fundamental capacity gap” developing should any one firm exit the market. PSAA’s procurement strategy was structured to broaden supplier participation by: allowing opportunities for firms not yet registered as local auditors to participate; including ‘development lots’ to allow new entrants to bid for smaller packages of work; and setting a target of 34% maximum market share for any single provider (paragraphs 3.5 to 3.7).

17 The 2022 procurement reduced the market share of the largest providers and brought new firms into the market. The overall number of providers increased from five to six, as three firms entered the market and two exited. At 36%, the market share of the largest provider was higher than the intended maximum. The share represented by the top two firms in the market reduced from 70% to 59% and one of the top two firms by market share changed. In total, PSAA awarded contracts covering 96.5% of the work it originally tendered for. Following a rapid supplementary procurement process in August 2022, PSAA secured 99.5% of this capacity, a figure it judged sufficient following confirmation of the impact of local government reorganisations (paragraph 3.8).

Increasing the supply of qualified auditors

18 DLUHC consulted on a number of measures, including those to increase the supply of qualified local auditors. In 2021, PAC raised concerns about a “missing generation” of auditors with the required experience for local audit, with most key audit partners over 50 years old.⁶ PAC recommended that DLUHC work with the FRC and the accountancy institutions to accelerate the supply of qualified auditors. DLUHC opened a consultation in July 2021 and published the results in May 2022 (paragraph 3.9).

19 DLUHC and other bodies have set out a range of approaches to increase auditor supply, although some will not take effect until later in 2023. The approaches include:

- creating new routes for becoming a key audit partner. The FRC published updated guidance in June 2022 outlining changes to the categories of experience the Institute of Chartered Accountants in England and Wales (ICAEW) may consider in assessing applications for key audit partners, and a new training route for those with less local audit experience;
- developing a new qualification for local auditors, which DLUHC expects to launch in spring 2023;
- developing a new technical advisory service to support firms with specialist advice on complex local audit issues, which DLUHC expects to launch in summer 2023; and
- announcing a workforce strategy for local audit, led by the FRC. DLUHC intends to work with the FRC, and subsequently ARGA, along with a small number of firms, on a strategy expected to consider the pipeline for the development of future auditors.

Since spring 2021 the number of key audit partners listed on the ICAEW register has increased slightly from 98 to 99, with 20 new registrations since April 2021 (paragraph 3.10).

⁶ Key audit partners are staff responsible for key decisions or judgements on significant matters, with respect to the audit of financial statements on which the firm will express an opinion.

Reforming local audit

20 DLUHC has taken steps towards creating a new system leader for local audit, although it understands ARGA will not be established until 2024 at the earliest.

In July 2021 PAC expressed its concern that DLUHC’s plans to place responsibility for system leadership with ARGA would not meet the “pressing need” for system leadership now. Since then, developments have included:

- DLUHC’s establishment of the Local Audit Liaison Committee, intended to bring together sector expertise and develop a joined-up response to the problems in local audit. The committee, chaired by DLUHC, met for the first time in July 2021 and had met six times by the end of 2022;
- DLUHC updating PAC on developments to the plans for governance and accountability arrangements for ARGA. DLUHC first set out plans in May 2021, including a remit letter that the Secretary of State for Levelling Up, Housing and Communities would issue each Parliament to set out government’s priorities for local audit. DLUHC intends relations between ARGA and itself to be governed by a memorandum of understanding; and
- the FRC appointing a new director of local audit, who took up post in September 2022. The new director will lead on FRC’s shadow system leader arrangements for local audit until ARGA is established. DLUHC and FRC intend to publish a memorandum of understanding in January 2023 setting out the shadow roles FRC will take on.

In May 2022, the Department for Business, Energy & Industrial Strategy (BEIS) told the Local Audit Liaison Committee that ARGA would not be established before 2024 at the earliest (paragraphs 3.11 to 3.17).⁷

21 DLUHC has reported progress in reforming local government accounts. In 2021 PAC expressed its concern that local government accounts were impenetrable to many stakeholders, which did not aid accountability. PAC also described how complex valuation arrangements around property investments in particular generated levels of audit work disproportionate to the risks faced by authorities. Since then, DLUHC has reported developments including:

- working with the Chartered Institute of Public Finance and Accountancy (CIPFA) to develop a standardised statement providing short, clear and transparent information on financial performance. In 2021 DLUHC deferred the requirement for local government bodies to adopt these new statements to relieve pressure on the audit system; and
- reviews under way by HM Treasury and CIPFA looking at accounting requirements for complex areas, such as non-investment property, plant and equipment valuations (for example, council offices, public swimming pools or social housing) and infrastructure assets (for example, roads, street lighting and flood or coastal defences) (paragraphs 3.18 to 3.20).

⁷ The Department for Business, Energy & Industrial Strategy is the department leading on the creation of ARGA.

Part One

The local audit landscape

1.1 This part of the report provides background on the local audit landscape for England that government put in place in 2015. It summarises reports that we and the Committee of Public Accounts (PAC) have produced in recent years highlighting problems that arose for the audit of local government bodies under this system (collectively known as local government bodies). Part Three of this report sets out progress made in addressing the recommendations. Other local bodies such as town and parish councils and local NHS bodies have separate audit arrangements which are outside the scope of this report, although requirements in relation to key audit partners also apply to NHS audits.

Changing roles and responsibilities

1.2 Local audit changed significantly in 2015, with roles and responsibilities becoming spread across multiple organisations. The Local Audit and Accountability Act 2014 sets out the local audit arrangements the Department for Levelling Up, Housing & Communities (DLUHC) introduced to replace the Audit Commission from April 2015. Key organisations include:

- DLUHC, which provides legislative oversight of local authority finance and reporting;
- the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Local Authority Code Board, which sets guidance on production of local government accounts, and the Comptroller and Auditor General (C&AG), who issues a Code of Audit Practice and associated guidance notes for the audit of these accounts;⁸
- Public Sector Audit Appointments Ltd (PSAA), which appoints auditors to local government bodies which have opted into its national scheme;
- private audit firms, which are appointed to undertake audits either by PSAA or directly by local government bodies;⁹

⁸ The Local Authority Code Board is a joint committee of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

⁹ PSAA appointed local auditors to all but nine 'opted out' local government bodies in 2020-21 and 2021-22.

- the Financial Reporting Council (FRC), which inspects and reports on the quality of audits of local bodies with income or expenditure in excess of £500 million per year;¹⁰ and
- the Institute of Chartered Accountants in England and Wales (ICAEW), which reviews and reports on the quality of non-major local audits, and licenses and registers auditors to undertake audits of local public bodies.

1.3 The local audit framework is set to change again following government's response to an independent review of the system. In 2020 Sir Tony Redmond published his *Independent review into the oversight of local audit and the transparency of local authority financial reporting* (the Redmond Review).¹¹ DLUHC responded to Sir Tony's report in May 2021. **Figure 1** overleaf highlights some of the headline findings from the review along with government's response. **Figure 2** on page 15 sets out the key roles and responsibilities within the system as they currently exist, along with changes made or planned following DLUHC's response to the review. These changes are discussed in greater detail in Part Three of the report. Key developments include:

- the expected establishment of the Audit, Reporting and Governance Authority (ARGA), which is due to replace the FRC in 2024 at the earliest as the new regulator for corporate governance and audit. DLUHC announced in July 2021 that ARGA would be the new system leader for local audit, with DLUHC acting as system leader until ARGA takes up this role. By autumn 2022 the FRC began preparations for a shadow system leadership role it expects to formalise through a memorandum of understanding with DLUHC in early 2023. Once ARGA is established, DLUHC will maintain an oversight role of its local audit work through a further memorandum of understanding; and
- the establishment of the Local Audit Liaison Committee in July 2021 to bring together expert stakeholders to guide responses to problems in the local audit system. The committee is chaired by DLUHC, though this will be taken on by ARGA when it takes up its system leader role.

¹⁰ FRC quality inspections also include local authority pension schemes with at least 20,000 members or gross assets in excess of £1,000 million.

¹¹ Sir Tony Redmond, *Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting* [the Redmond Review], September 2020 (accessed 12 December 2022).

Figure 1

Key recommendations from the Redmond Review affecting the structure of the local audit system

Government chose a different structure for local audit system leadership to that proposed by the Redmond Review

Review finding	Government response
<p>A new body, the Office of Local Audit and Regulation (OLAR) to be created to manage, oversee and regulate local audit with the following responsibilities:</p> <ul style="list-style-type: none"> ● Procurement of local audit contracts; ● Producing annual reports summarising the state of local audit; ● Management of local audit contracts; ● Monitoring and review of performance; ● Determining the code of local audit practice; and ● Regulating the local audit sector. <p>A Liaison Committee be established comprising key stakeholders and chaired by the Department for Levelling Up, Housing and Communities (DLUHC), to receive reports from the new regulator on the development of local audit.</p>	<p>Government did not agree that the same organisation needed to be responsible for all the functions proposed for OLAR. Instead:</p> <ul style="list-style-type: none"> ● The Audit, Reporting and Governance Authority (ARGA) being established to replace the Financial Reporting Council (FRC) would be best placed to take on the system leader role; and ● Public Sector Audit Appointments Ltd would retain its procurement and contract management role to better manage potential conflicts of interest. <p>Government agreed to the establishment of a Liaison Committee but that it should be chaired by ARGA rather than DLUHC.</p>

Source: National Audit Office analysis of DLUHC responses to the Redmond Review

Figure 2

Roles and responsibilities for the audit of local bodies

The new Audit, Reporting and Governance Authority (ARGA) is expected to become the system leader for local audit from 2024, taking up a range of roles currently delivered by other bodies

System oversight

Department for Levelling Up, Housing and Communities: has oversight of local authorities and holds responsibility to maintain a set of statutory codes and rules which require councils to act prudently in their spending. Chairs the **Local Audit Liaison Committee**.

Audit Reporting and Governance Authority (ARGA): will provide system leadership from 2024 through regulation of local audit, monitoring and review of audit performance, overseeing the code of audit practice and reporting on the state of local audit. Will chair the **Local Audit Liaison Committee**.

Standards and guidance

CIPFA LASAAC Local Authority Code Board: joint committee of the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) which issues guidance on the required content of local public bodies' financial statements.

Comptroller and Auditor General, National Audit Office: sets the standards for local public audit, through maintaining a Code of Audit Practice for audits of local public bodies and issuing guidance to auditors. This responsibility will pass to **ARGA**.

Preparing and auditing financial statements

Local bodies: local authorities and other public bodies are required to prepare and publish financial statements setting out their financial performance for the year.

Public Sector Audit Appointments Ltd (PSAA): responsible for securing efficient and effective arrangements for the independent appointment of auditors and setting fees on behalf of participating local bodies.

External audit firms: responsible for reporting their opinion on whether local public bodies' financial statements give a true and fair view, and for concluding on whether the body has made proper arrangements for securing value for money.

Quality review

Financial Reporting Council: monitors the quality of major local audits in England, and recognises accountancy institutes as Recognised Supervisory Bodies with which audit firms must register before being appointed by local bodies or PSAA. Role will be subsumed into **ARGA** after it replaces the Financial Reporting Council in 2024.

Institute of Chartered Accountants in England and Wales: monitors the quality of non-major local audits in England.

Recent reports and recommendations on the local audit system

National Audit Office

1.4 When we last reported on the local audit system in England in March 2021, 45% of audits had completed on time.¹² Our report focused on the declining performance of the local audit system in delivering completed audits by government's expected deadlines. We reported that performance had fallen from 97% of audits completed in time for local government publication deadlines for 2015-16 accounts, to 45% for 2019-20 accounts. While our report described how the COVID-19 pandemic had a significant impact on the production of accounts and the completion of audits for the 2019-20 financial statements, we also noted that the pandemic exacerbated problems which already existed within the local audit landscape. These issues included:

- insufficient staff with the relevant qualifications, skills and experience in both local finance teams and firms serving the local audit sector;
- the relative lack of attractiveness of local audit as a career, compared with alternative opportunities available to staff in audit firms, had contributed to a high staff turnover level;
- increasing work for local authority finance staff and auditors as council activities become more varied, complicated and commercial; and
- an increased focus on audit quality findings from the FRC following a series of high-profile corporate failures, resulting in auditors undertaking more work in some areas.¹³

Committee of Public Accounts

1.5 PAC held evidence sessions in 2021 based on our report. In its July 2021 report, PAC noted how:¹⁴

- the local audit market as a whole was then reliant upon a small number of audit firms, two of which were responsible for up to 70% of local government body audits;

¹² Comptroller and Auditor General, *The timeliness of local auditor reporting on local government in England, 2020*, Session 2019–2021, HC 1243, National Audit Office, March 2021.

¹³ FRC monitors the quality of major local audits in England and recognises accountancy institutes as Recognised Supervisory Bodies with which audit firms must register before being appointed by local bodies.

¹⁴ Committee of Public Accounts, *Local auditor reporting on local government in England*, Eleventh Report of Session 2021-22, HC 171, July 2021 (accessed 12 December 2022).

- the complexity of local authority accounts had grown, and that audit firms had to carry out more work to comply with new regulatory demands and to adapt to the new landscape in which local authorities operated; and
- there was a pressing need for system leadership for local public audit, but ARGA, the future system leader, would not be set up until 2023 at the earliest.

PAC told DLUHC it had to take practical and concrete steps to address urgent problems that could not wait for ARGA to be established. PAC stated that it would track government progress closely.

1.6 In a subsequent report on the local government finance system in February 2022, PAC concluded that DLUHC had not acted with sufficient urgency to address these issues. PAC reported that DLUHC had not yet set out an overarching plan and timetable to address the “severe and pressing problems” with the local government audit market.¹⁵ In response to audit completion falling further for 2020-21 accounts, PAC expressed concern that DLUHC’s oversight of the local government sector relied on a system of local accountability hampered by “shockingly late” audit opinions. The recommendations from PAC’s reports, and DLUHC’s responses, are set out in Appendix Two of this report. Part Three describes DLUHC’s actions since and the progress made.

Financial Reporting Council

1.7 The FRC is responsible for reviewing the quality of major local audits, including those of more than 200 local government bodies. The FRC reported on its programme of inspections of 2020-21 audits in October 2022. The published findings of this report, including the ICAEW’s reviews of smaller local audits, are summarised in **Figure 3** overleaf. In January 2022 the FRC also used its sanction powers for the first time in a local audit context, issuing a fine of £250,000 for failings identified in one local government audit.

¹⁵ Committee of Public Accounts, *Local government finance system: overview and challenges*, Thirty-fourth Report of Session 2021-22, HC 646, February 2022 (accessed 12 December 2022).

Figure 3

Findings of audit quality inspections undertaken in 2022

The Financial Reporting Council (FRC) reported on the findings of its own quality reviews as well as those undertaken by the Institute of Chartered Accountants in England and Wales (ICAEW)

FRC inspections of major financial statements audits

Findings included:

- 20 audits were inspected in 2022, including 14 local authorities and six NHS bodies. Fourteen of the audits related to the year ending 2020-21, with six relating to the prior year;
- 14 (70%) were judged 'good or limited improvements required' (70% in 2021);
- three (15%) were judged 'improvements required' (30% in 2021); and
- three (15%) were judged 'significant improvements required' (0% in 2021).

The FRC cautioned that its focus on higher risk audits, and the sample sizes involved, meant the findings may not be representative of audit quality on a year-by-year basis.

ICAEW reviews of non-major local financial statements audits

Findings included:

- 17 audits were reviewed in 2022 including both local authority and NHS audits;
- 15 (88%) were judged 'good or generally acceptable' (88% in 2021);
- one (6%) was judged 'improvement required' (6% in 2021); and
- one (6%) was judged 'significant improvement required' (6% in 2021).

Source: National Audit Office analysis of Financial Reporting Council published data

Part Two

Delivery of local auditor opinions

2.1 This part of the report provides an update on the timeliness of local auditor reporting across the two financial years since our last report. We present published data on performance for 2020-21 and 2021-22, and report on the impacts which delays to local audit are having on the wider public audit system. This part also sets out the actions the Department for Levelling Up, Housing & Communities (DLUHC) and other organisations have taken, intending to get local audit timeliness back on track in the near term.

Performance update on delivery of opinions and audited accounts publication

Changes to accounts preparation and audited accounts publication deadlines

2.2 The Accounts and Audit Regulations 2015 set out the publication requirements for financial statements by specifying a date by which a local government body should publish its accounts. 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 government bodies 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.

2.3 DLUHC's 2015 Accounts and Audit Regulations accelerated the timetable for accounts production and audit from 2017-18 onwards.¹⁶ The new regulations required local government bodies to publish draft accounts by the first working day of June (effectively 31 May) following the end of the financial year, with publication of audited accounts due by 31 July. This allowed auditors two months to complete their final opinion work on the published draft statements. Before 2017-18, regulations required audited accounts to be published by 30 September, three months from the publication of draft accounts. Government intended that this acceleration of the accounts closedown and audit timetable would increase public interest in local government body accounts and encourage more rigorous monitoring of finances in-year. These and subsequent changes to the time available for final audit opinion work are shown in **Figure 4**.

2.4 DLUHC amended accounts publication deadlines for 2019-20 to allow for the effect of the COVID-19 pandemic. It allowed more time for the preparation of draft accounts for 2019-20, deferring the deadline by three months from the first working day of June to that of September (effectively 31 August). The deadline for the publication of 2019-20 audited accounts was deferred by four months to 30 November, increasing the time available for auditors to complete their final opinion work on the draft accounts from two months to three. In 2021, we reported that 45% of authorities received audit opinions in time to publish within that extended window, compared with 95% two years previously.

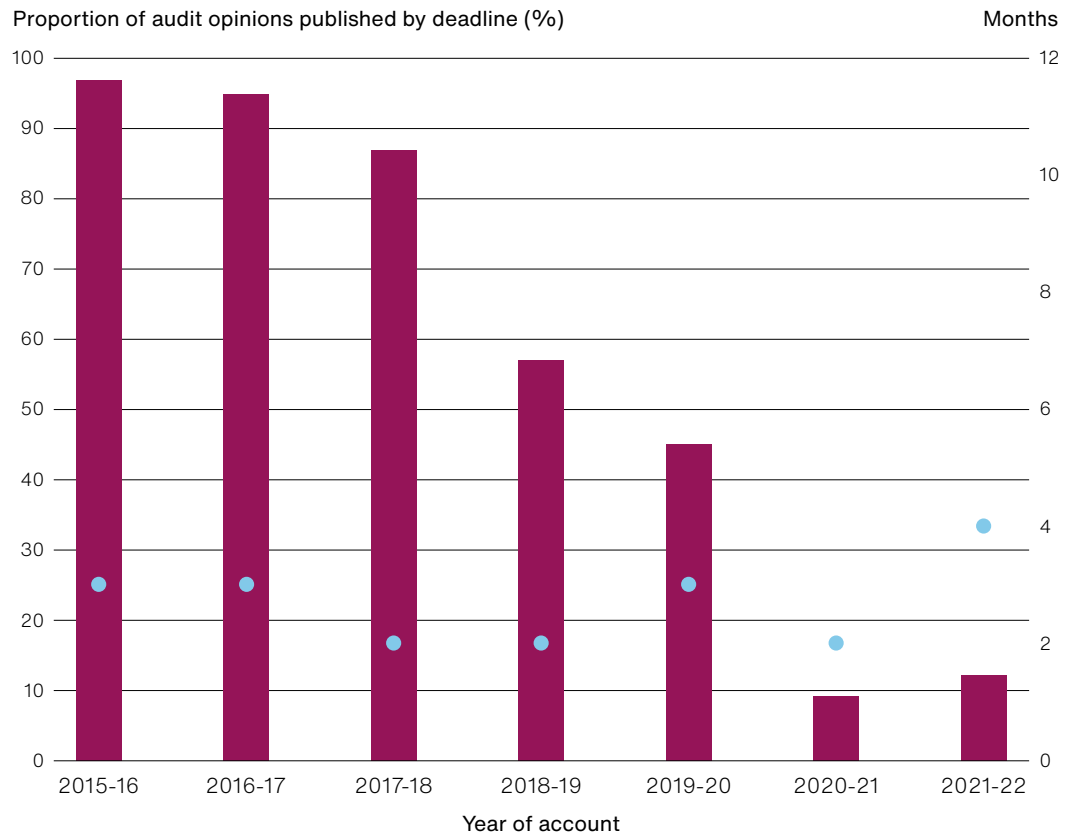
2.5 Recognising the challenge the July deadline was posing for timely audit completion, DLUHC extended its deadlines for a further two years. The 2020 Redmond Review highlighted the increase in delayed audit opinions since the required publication date was brought forward to 31 July, recommending that the deadline should be reviewed with a view to extending it to 30 September. Recognising the challenges of catching up after COVID-19 delays, DLUHC announced its intention in December 2020 to extend the deadline to 30 September for 2020-21 and 2021-22 and subsequently review whether there was a continued need for an extended deadline. In December 2021 DLUHC further extended the deadline for 2021-22 to 30 November, allowing four months for auditors to complete their final opinion work on the draft accounts. Amendments to the Accounts and Audit Regulations formalising these changes were made in June 2022.

¹⁶ *Accounts and Audit Regulations 2015*, (legislation.gov.uk), accessed 12 December 2022.

Figure 4

Performance publishing audited financial accounts by the statutory deadline

There has been a decline since 2015-16 in local government bodies publishing audited accounts by the statutory deadline. The time available for auditors to complete their final audit opinion work on the draft accounts has varied during this period



■ Audit completion rate (%)	97	95	87	57	45	9	12
● Months available to complete opinion work on draft accounts	3	3	2	2	3	2	4

Notes

- 1 Months available for audit completion represents the time between the latest possible statutory deadline for publication of draft accounts and the statutory deadline for publication of audited financial statements.
- 2 Effective dates for the publication of draft accounts per the Accounts and Audit Regulations were the first working day of July in 2015-16 and 2016-17, of June in 2017-18 and 2018-19, of September in 2019-20, and of August in 2020-21 and 2021-22.
- 3 The statutory deadline for publication of audited financial statements was 30 September in 2015-16 and 2016-17, 31 July in 2017-18 and 2018-19, 30 November in 2019-20, 30 September in 2020-21 and 30 November in 2021-22.

Source: National Audit Office analysis of Public Sector Audit Appointments Ltd published data, and the Accounts and Audit Regulations 2015, and as amended in 2020, 2021 and 2022

Performance on 2020-21 audits

2.6 The timely delivery of audit opinions on local government financial statements fell further for 2020-21. For local government bodies who had opted into Public Sector Audit Appointments Ltd's (PSAA's) national scheme for auditor appointments, 9% received opinions in time to publish audited 2020-21 financial statements by the 30 September 2021 deadline, compared with the 45% receiving opinions in time to publish audited 2019-20 accounts against a 30 November 2020 deadline. The reporting deadlines set by DLUHC had allowed for two months between publication of draft accounts and audited accounts in 2020-21, compared with three months for 2019-20 (paragraphs 2.3 and 2.4).

2.7 DLUHC informed the Committee of Public Accounts (PAC) in October 2021 that it had expected the performance for 2020-21 audits to be significantly worse than for 2019-20. DLUHC reported this was due to a combination of fundamental capacity issues and the impact of the COVID-19 pandemic. Nevertheless, the PAC chair wrote to DLUHC following publication of performance information expressing "shock and concern" at the 2020-21 figures.

Performance on 2021-22 audits

2.8 For 2021-22, 12% of local government bodies received opinions in time to publish audited accounts by the publication deadline of 30 November 2022. DLUHC's reporting deadlines for 2021-22 effectively provided a four-month window between publication of draft accounts and audited accounts, compared with two months for 2020-21. Figure 4 also shows performance of publication against deadlines since 2015-16.

Ongoing work on overdue audits

2.9 During 2022, auditors continued work on completing overdue audits from 2020-21 and earlier. For local government bodies opted into PSAA's national scheme for auditor appointments, opinions for 168 2020-21 audits (35%) had not been issued 12 months on from the September 2021 deadline for publishing audited accounts. As at 30 November 2022, the number of opinions that had not been issued for previous years were:

- 2020-21 – 161 audits;
- 2019-20 – 45 audits;
- 2018-19 – 10 audits;

- 2017-18 – three audits;
- 2016-17 – one audit; and
- 2015-16 – one audit.

By 30 November 2022, a total of 632 audit opinions were overdue.¹⁷

The impact of late delivery of opinions and publication of audited accounts

Impact on local government

2.10 Ongoing delays to the publication of audited accounts have potential implications for governance and accountability in the local government sector. Our 2021 report highlighted how delays affect the assurances that can be given to taxpayers and elected representatives. We also described how authorities need accurate and reliable financial information to plan and manage their services and finances effectively. We also noted that the audit process provides a key element of assurance for financial planning and budgeting in local government bodies. We described how delays to the audit opinion and the issue of recommendations to audited bodies could mean that actions to improve financial efficiency and resilience are also delayed, and risk those actions being less effective.

Impact on central government

2.11 Since 2021 we have seen delays to local audits continue to have an impact on the National Audit Office's (NAO's) audit of central government departments. Our 2021 report highlighted the impact of audit delays on the assurance provided by the auditors of Local Government Pension Scheme accounts to those central government departments which have significant numbers of staff enrolled in the scheme. Pension valuations remain material for the Ministry of Justice (MOJ), the Department for Digital, Culture, Media & Sport (DCMS) and a number of their respective arm's-length bodies. As a result, continuing delays have contributed to both departments' accounts being certified by the Comptroller and Auditor General (C&AG) between four and five months after the start of the July Parliamentary recess since 2019-20. Prior to that they were certified before the July recess. In November 2022, the Financial Reporting Advisory Board considered options to amend accounting treatments to avoid these assurance delays.

¹⁷ This represents audits opted into the PSAA national scheme for auditor appointments and does not include the nine authorities outside that system.

2.12 PAC has raised concerns that delays to local government audit are contributing to problems with the quality and usefulness of the Whole of Government Accounts (WGA). PAC has reported that:

- the 2019-20 WGA was certified by the C&AG 26 months after the financial year end and five months after the statutory deadline. PAC found this delay to be due to a combination of the impacts of the COVID-19 pandemic, problems experienced by HM Treasury's new IT system OSCAR II, and late completions in local audit;¹⁸ and
- delays to local audit meant that at the time PAC reported, the 2019-20 WGA included unaudited data from 29 local authorities. PAC commented that in its view "data used to reflect the local government sector and to prepare the WGA, has become increasingly unreliable. This consequently lowers the quality of data and reduces the certainty of any consequent insights, conclusions or decisions taken from the accounts."¹⁹

HM Treasury has since told PAC that ongoing delays to the completion of 2020-21 local authority financial statement audits are adding to uncertainty around progress with the 2020-21 WGA, which it does not expect to publish until after March 2023. At the earliest this would be 24 months after the financial year end and three months after the statutory deadline for publishing the WGA.

Impact on the health sector

2.13 The audit of bodies in the wider health sector is also being affected by the delays experienced in the local government sector. Local NHS audits are often provided by the same firms and staff that audit local government, and delays in one sector disrupt the firms' audit planning and delivery for the others. Surveys by the Healthcare Financial Management Association suggest that some organisations are experiencing issues relating to delays and other local audit market factors including:

- concerns in terms of capacity among audit teams, resulting in them carrying out fewer interim audit visits and therefore putting pressure on the year-end audit;
- difficulties attracting interest from enough firms when trying to appoint an auditor;
- concerns about their ability to appoint an external auditor in future;
- concerns about the timetable for the preparation of the accounts in terms of capacity issues within NHS finance teams; and
- concerns that a return to a pre-recess timetable is not possible.^{20,21}

18 Committee of Public Accounts, *Whole of Government Accounts 2019-20*, Twentieth Report of Session 2022-23, HC 31, October 2022 (accessed 12 December 2022).

19 See footnote 18, paragraph 14.

20 Healthcare Financial Management Association, *Year-end survey 2021-22*, November 2022 (accessed 12 December 2022).

21 Healthcare Financial Management Association, *The NHS external audit market – an update on current issues*, August 2022 (accessed 10 January 2022).

2.14 PAC has reported on the impact of late reporting following a hearing on the Department of Health & Social Care's (DHSC's) 2020-21 annual report and accounts. PAC recommended DHSC bring forward the preparation and publication of its annual report and accounts. DHSC has since responded that it is working towards returning to a pre-recess timetable from 2023-24 onwards, but that it is dependent on the capacity issues in the audit market.

Actions aimed at getting timeliness back on track

2.15 Since we and PAC reported in 2021, DLUHC and other bodies in the local audit system have undertaken a range of responses intended to support getting audit timeliness back on track in the near term. In addition to extending deadlines for audit completion (see paragraphs 2.3 and 2.4), responses have included:

- **flexing audit requirements to manage pressures.** In December 2021, as part of our Code of Audit Practice responsibilities, we updated aspects of our statutory guidance to local auditors. This was intended to temporarily allow auditors more flexibility on the timing of their work on value-for-money arrangements, so they could focus work on financial statement opinions.²² In April 2022, DLUHC announced that HM Treasury had raised the threshold for audited local authority WGA returns from authorities with expenditure or asset totals of £500 million to those with totals of £2 billion. HM Treasury expected this would relieve 159 organisations of the requirement to provide audited data inputs for returns from 2020-21 onwards; and
- **deferral of new accounting responsibilities.** In December 2021, DLUHC announced it would delay implementation of the new standardised statements recommended by the Redmond Review. These were intended to increase transparency for taxpayers and service users, but DLUHC felt it was not the right time to introduce new requirements while timeliness issues were so severe. In April 2022, the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Local Accounting Code Board further deferred adoption of a new International Financial Reporting Standard on accounting for leases until 2024-25.²³ These measures were intended as a pragmatic response to reduce resource pressures on preparers and auditors while there were ongoing audit timeliness issues.

22 These changes are set out in our Auditor Guidance Notes AGN 03 (Auditors' work on value-for-money arrangements) and AGN 07 (Auditor reporting).

23 The Local Authority Code Board is a joint committee of the Chartered Institute of Public Finance and Accountancy and the Local Authority (Scotland) Accounts Advisory Committee.

2.16 DLUHC has not produced a comprehensive timetable for restoring timely audited accounts, and it does not expect audit deadlines to return to those seen pre-pandemic until 2028. PAC requested a detailed timetable in its recommendations of July 2021 (see Appendix Two). In its November 2021 update to PAC, DLUHC highlighted that:

- the timeliness issues pre-dated the COVID-19 pandemic and relate to a wide range of factors, making it less realistic that these should be back on track on the same timeframe as other public sector and corporate audits;
- other sector stakeholders felt it could take 18–24 months to deal with the backlog of local audits without compromising on quality but that delays could continue further, given the knock-on impacts of the delays in 2021-22 audits; and
- the Local Audit Liaison Committee (paragraph 1.3) has also held discussions around what could be done urgently to bring about improvements in timeliness.

By December 2021, DLUHC had announced a further extension of the deadline for the publication of audited financial statements to 30 September for the five accounting years from 2023-24 to 2027-28. Amendments to the Accounts and Audit Regulations formalising these changes were made in June 2022. DLUHC has since provided dates for the expected delivery of a range of elements designed to help address the delays in local audit.

Part Three

Action taken to tackle the challenges in local audit

3.1 This part of the report provides an update on what government and others have done to tackle the challenges for the local audit system the Committee of Public Accounts (PAC) highlighted in its earlier reports.²⁴ The concerns reflected in PAC's recommendations covered the need for the Department for Levelling Up, Housing & Communities (DLUHC) to:

- support the local audit market, through providing a more attractive fee regime and increasing the number of participants in the market;
- increase the supply of qualified auditors in firms; and
- reform the local audit system, through establishing a new system leader and improving local government accounts.

We set out PAC's full recommendations in Appendix Two, along with DLUHC's responses. We summarise the actions taken by DLUHC and others since PAC's July 2021 report in Appendix Three.

Supporting the local audit market

Providing a more attractive fee regime

3.2 PAC expressed concern in 2021 that the commercial attractiveness to firms of auditing local authorities had declined. PAC highlighted that the work involved in local audit had increased significantly in response to issues in the wider corporate sector, and that fees no longer bore relation to the costs required to carry out the work (based on firms' 2017 competitive bids). It recommended that DLUHC ensured the procurement exercise Public Sector Audit Appointments Ltd (PSAA) was due to start in 2021 (for the next round of audit contracts covering 2023-24 to 2027-28 financial years) be structured to bring fees into line with the costs of the work and be appropriately funded.

²⁴ Committee of Public Accounts, *Local auditor reporting on local government in England*, Eleventh Report of Session 2021-22, HC 171, July 2021 (accessed 12 December 2022).

3.3 PSAA's 2021 audit procurement strategy responded to market and sector feedback about concerns over supply and performance by selecting contract award criteria that prioritised quality over price. PSAA set its contract award criteria to prioritise quality with only 20% of scoring allocated to price. This was a change from the 2017 competition where PSAA had awarded contracts based on a weighting of 50% quality and 50% price.

3.4 On announcing the outcome of the procurement, PSAA told local government to expect significant fee increases from 2023-24. PSAA advised opted-in local government bodies to anticipate an increase of 150% in fees for the first year of the new contracts in 2023-24, depending on the work required. DLUHC had already taken steps to provide support for local authorities and audit providers with increasing audit costs. Approaches have included:

- announcing £15 million of additional funding in December 2020 to help meet additional costs arising from the recommendations made by the Redmond Review, including an anticipated increase in audit costs for 2021-22. The increase in costs was driven by new requirements on auditors, including the 2020 Code of Audit Practice, and to enable local authorities to develop standardised statements of service information and costs (paragraph 2.15). Funding was paid to local authorities in March 2022;
- allowing PSAA more time in its annual fee-setting process, to help it consider more up-to-date information on the results of previous audits and the impacts of any new requirements through the ability to reflect these by applying a common variation to all affected bodies. Previously, PSAA had to set fees before the start of the financial year to which it relates. Since February 2022, PSAA has been able to take until 30 November or four months before the start of the financial year to set fees; and
- announcing a further £45 million to local government bodies over the next Spending Review period, covering 2022-23 to 2024-25. In January 2022, DLUHC told PAC that this additional funding would help with the costs of strengthening financial reporting, new requirements relating to the appointment of independent members to audit committees, and other increased auditing requirements.

PSAA requested in October 2022 that central government consider providing further support to local government bodies to help fund the anticipated increase in audit fees.

Increasing the number of participants in the local audit market

3.5 PAC previously described a risk of market collapse due to over-reliance on a small number of audit firms and significant barriers to entry. PAC's report highlighted a market dominated by two firms sharing 70% of local authority audits, by value. PAC expressed concern that any one firm deciding to exit from the market would create a "fundamental capacity gap" and harm accountability.

3.6 DLUHC recognised that expanding the number of audit firms in the market should be a priority for the local audit procurement process starting in 2021. DLUHC described to PAC how it was working with PSAA on its strategy for the procurement process. PSAA consulted the local audit sector on the process from June 2021 and published its procurement strategy in September 2021.

3.7 PSAA's procurement strategy had an objective to encourage new audit suppliers to enter the market. The previous procurement in 2017 was limited to bidders who were already registered. Aspects of the 2021 strategy intended to support potential new suppliers included:

- opportunities for suppliers that had not yet completed the registration process with the Institute of Chartered Accountants in England and Wales (ICAEW) to submit bids with awards contingent on successful completion of the process;
- accepting bids from consortia or other forms of joint working arrangements where at least one firm involved in the bid is registered as (or going through the process of registration to become) a local public auditor with the ICAEW;
- the inclusion of three 'development lots' allowing new entrants to bid for work packages limited to between 0.5% and 2.25% of the total market share, which excluded major local audits. The size of the ten 'standard lots' ranged from 4% to 18% of total market share. The previous procurement process had five standard lots; and
- an expected 34% limit on the maximum market share by value awarded to any individual supplier. Under the 2017 procurement the largest provider had 40% of the market.

DLUHC also told PAC in September 2022 that it was working with PSAA to develop contingency options to mitigate the risk that the procurement did not attract sufficient bids from audit firms.

3.8 PSAA announced the final outcome of its procurement process in October 2022. PSAA's national auditor appointment scheme covers 470 (99%) out of 475 eligible bodies for the appointing period covering the audits of 2023-24 to 2027-28. By August 2022 the process had secured auditors for 96.5% of the audit work detailed in its original tender. PSAA had needed a rapid supplementary procurement process to appoint the remaining capacity. By October, 99.5% of the capacity initially tendered was secured, a figure PSAA judged sufficient following confirmation of changes in local government organisation. The outcome of the procurement, summarised in **Figure 5**, provided:

- an overall increase in providers successful in securing an audit contract from PSAA from five to six, with two providers exiting the market and three joining;
- a market share of 36% for the largest provider, compared with the intended limit of 34%; and
- combined market share of the two largest providers in the market by value falling from 70% to 59%, with one of the top two firms by market share changing compared with the previous procurement.

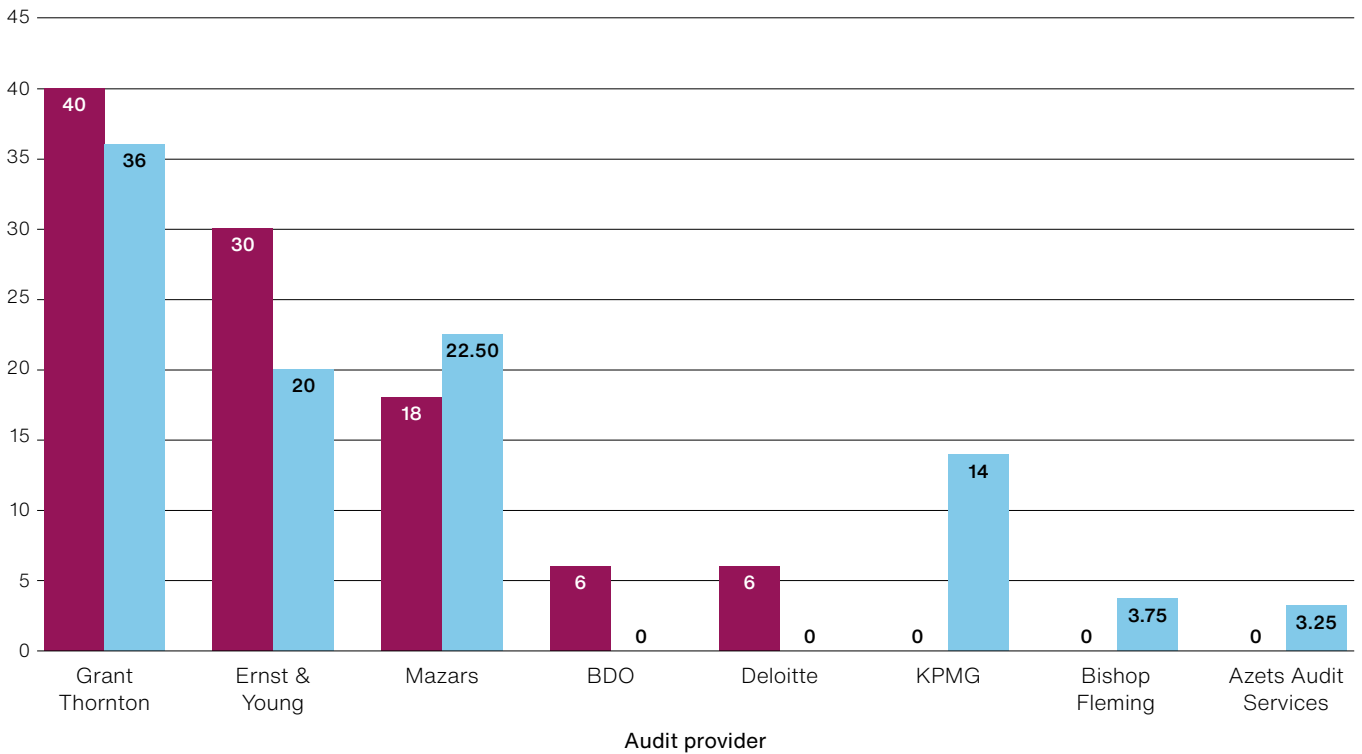
Increasing the supply of qualified auditors

3.9 In 2021, PAC reported “serious shortfalls” in the specialist staff audit firms rely on to audit local authorities. PAC was concerned there was a “missing generation” of auditors with the required experience, with most of the key audit partners being over 50 years old. PAC recommended that DLUHC work with the Financial Reporting Council (FRC) and the accountancy institutions to accelerate training and increase the supply of qualified auditors quickly. **Figure 6** on page 32 provides more information on the nature of the specialist roles required in local audit.

Figure 5
Changes in audit firms' share of the local audit market

The 2022 procurement reduced the share of the centrally-procured audit market held by the two largest providers in the market from 70% to 59%

Market share (% by value)



■ 2017 Procurement
■ 2022 Procurement

Note

1 Data shows market share for audit of the 470 local government, police and fire bodies that have opted into the Public Sector Audit Appointments Ltd national procurement process.

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

Figure 6

Key roles for staff involved in the audit of local public bodies

Accountancy bodies recognise and license two key audit roles for local public bodies as well as other audit sectors

Key audit partners

Key audit partners (KAPs) are auditors who are responsible for key decisions or judgements on significant matters, with respect to the audit of financial statements on which the firm will express an opinion. An individual must be registered as a KAP to sign off audits of local authorities and only firms with KAPs can register to perform local audits. KAPs for local audit are licensed in England by the Institute of Chartered Accountants in England and Wales following guidance on required training and experience issued by the Financial Reporting Council.

Responsible individuals

Responsible individuals are auditors who are responsible for overseeing the delivery of an audit and ensuring that it meets regulatory requirements. These individuals must meet criteria set out by the Financial Reporting Council.

Source: National Audit Office analysis of information from the Financial Reporting Council, the Institute of Chartered Accountants in England and Wales, and the International Federation of Accountants

3.10 DLUHC opened a consultation in July 2021, the results of which were published in May 2022, and proposed a range of approaches. DLUHC's proposals involved working with the FRC, and in due course the Audit, Reporting and Governance Authority (ARGA) to address the supply of qualified auditors. Progress has included:

- **creating a new route to becoming a key audit partner through approved specialist training.** Following its own consultation process launched in spring 2022, the FRC published new guidance in June 2022, which broadened the categories of experience which accountancy institutes may consider in judging an individual as qualified to become a key audit partner. It also approved a new route to qualification for responsible individuals with less local audit experience but who have undertaken approved specialised training in local government audit;
- **developing new qualifications for local audit.** The Chartered Institute of Public Finance and Accountancy (CIPFA) has been leading a working group designing and developing a local audit training diploma. DLUHC told PAC in December 2021 that this diploma would be focused on local government financial reporting and management to meet the technical training needs of experienced responsible individuals in audit firms, who had not yet met the criteria for becoming a key audit partner. It would also aim to support firms if they intended to bid in the next procurement for audits of local government bodies. DLUHC expects to launch the new qualification in spring 2023;

- **developing a new technical advisory service for the sector.** The service is being developed by a working group including DLUHC and CIPFA and aims to provide support on local government sector topics, such as specialist technical advice to local auditors dealing with difficult or complex audit issues. In May 2022, DLUHC told the Local Audit Liaison Committee that it was soon to start pre-market engagement to develop the service specification with the aim of tendering for the service later in the year. DLUHC expects to launch the service in summer 2023; and
- **announcing a workforce strategy for local audit.** DLUHC has committed to working with the FRC and, in due course, ARGA to produce a workforce strategy for local audit. DLUHC intends to work with ARGA and “one to two” audit firms to establish an industry-led strategy. The strategy is expected to consider the pipeline of future auditors and their training. The FRC set out that its new director of local audit would take forward work on the workforce strategy from September 2022.

Since April 2021 the total number of key audit partners listed on the ICAEW register has increased from 98 to 99. The register shows that 20 new key audit partners have been issued licences in the same period, suggesting that 19 have also left the register.

Reforming local audit

Establishing a new system leader

3.11 In May 2021, DLUHC announced its intention to establish ARGA as the new system leader for local audit. The need for a new system leader was recognised in the 2020 independent review of the oversight of local audit (the Redmond Review), which identified a lack of coherence across the existing local audit framework. DLUHC proposed ARGA, which was due to be established to replace the FRC, as its preferred system leader. It proposed that ARGA would be responsible for:

- the regulation of local audit;
- monitoring and review of local audit performance;
- the code of local audit practice; and
- reporting on the state of local audit.

On announcing its preference for ARGA, DLUHC noted the Redmond Review’s rationale for discounting the FRC as a possible system leader due to its focus on the corporate sector. DLUHC asserted it would be possible for ARGA to develop the expertise and focus required for the role. DLUHC began consultation on its proposals in July 2021. Figure 2 on page 15 shows the current local audit framework and the anticipated impact ARGA will have on it.

3.12 In July 2021, PAC reported it was “not convinced” that the new arrangements would “meet the pressing need for effective system leadership now”. Having expressed its concern that ARGA would not be set up until 2023 at the earliest, and that doing so would require legislation, PAC asked DLUHC for more information on how it would address the need for system leadership while ARGA was being established, and how it would establish appropriate governance and accountability arrangements.

3.13 DLUHC established the Local Audit Liaison Committee in July 2021 to support interim system leadership. DLUHC intended the committee to bring together sector expertise and develop a joined-up response to the problems in local audit. Committee membership includes, among others, DLUHC as chair, HM Treasury, the FRC, the National Audit Office (NAO), the Local Government Association, PSAA and representatives of the ICAEW and CIPFA. As at December 2022, the committee had met six times, discussing issues including PSAA’s 2022 procurement process, delays to the publication of audited accounts in local government, support for audit capability and the future of system leadership.

3.14 DLUHC has reported on steps it has taken to develop governance and accountability arrangements for ARGA. DLUHC told PAC in October 2021 that it had been working with the Department for Business, Energy & Industrial Strategy (BEIS) on governance and accountability mechanisms for ARGA, which it first set out in May 2021. DLUHC proposed it would ensure ARGA had “appropriate regard” to government’s aims and priorities for local audit through a remit letter that its Secretary of State would issue once per Parliament, to which ARGA would need to respond. ARGA would also be required to lay in Parliament annual reports setting out how it was delivering against its objectives, with a standing section on local audit. DLUHC told PAC it was working on a ministerial memorandum of understanding, which it intended would ensure clear accountability between itself and the new system leader, and shadow arrangements aimed at enabling a smoother transition to the new local audit framework.

3.15 The FRC has begun developing its local audit focus in advance of becoming ARGA. In March 2022, the FRC announced the appointment of its first director of local audit, who it expects will play an integral role in establishing a new local audit unit, ahead of the establishment of ARGA. The new director took up post in September 2022, when the FRC intended to begin its shadow system leader arrangement for local audit for those parts of the new local audit framework that would not require primary legislation. These include the creation of a local audit department and engaging with local bodies and audit firms. The Local Audit Liaison Committee discussed in October 2022 key areas of responsibility under shadow arrangements, such as those that will be jointly managed by DLUHC and the FRC.

3.16 DLUHC and FRC expect to agree a memorandum of understanding in January 2023 for a shadow system leadership role the FRC will adopt while ARGA comes into being. DLUHC informed PAC in December 2022 that it expects these roles to include:

- leading a coherent and coordinated policy response to challenges arising across the local audit system;
- reporting on the state of the local audit system, identifying risks and trends that are emerging;
- leading work to improve competition, capability and market supply, including development of a workforce strategy alongside audit firms;
- facilitating stronger governance across the local audit framework; and
- overseeing the entire quality framework for local audit except for the Code of Audit Practice, which will remain held by the NAO until transferred under primary legislation.

3.17 ARGA will not be established until 2024 at the earliest. The FRC published a three-year plan in April 2022, which sets out its expected trajectory on costs and headcount up to 2024-25. The plan anticipates ARGA being created in the financial year 2023-24. In a later update to the Local Audit Liaison Committee in May 2022, BEIS confirmed that ARGA would not be established until 2024 at the earliest.²⁵

Improving local authority accounts

3.18 In 2021, PAC expressed its concern that unless local authority accounts are useful, relevant and understandable they will not aid accountability. PAC reported that accounts are impenetrable to many stakeholders, and that transparency could be aided through the inclusion of a simple standard statement focused on the issues of most relevance to citizens.

3.19 DLUHC told PAC that work was under way on developing simplified standard statements, although adoption of these was subsequently delayed. DLUHC wrote to PAC in October 2021 confirming it was working with CIPFA to develop a standardised statement for local authorities to publish alongside their accounts. It intended that the standardised statement would provide a short, clear and transparent summary of the authority's financial performance. DLUHC considered that the statement would also help to improve the useability of local authority accounts. In December 2021, DLUHC announced it would delay the implementation of these statements while pressures on audit timeliness remained so severe (see paragraph 2.15).

²⁵ The Department for Business, Energy & Industrial Strategy is the department leading on the creation of ARGA.

3.20 PAC also expressed concern that the complexity of valuation arrangements around property investments in particular generated levels of audit work that are disproportionate to the risks faced by authorities. DLUHC has reported progress on reviews into reducing accounting and audit effort on some complex areas that are less closely related to local government bodies' day-to-day spending and budgeting decisions. Since PAC reported in July 2021, DLUHC has:

- announced an HM Treasury thematic review of non-investment property, plant and equipment valuations (for example, buildings or equipment used for operational purposes by local bodies, such as council offices, public swimming pools or social housing). This was expected to complete in autumn 2022. HM Treasury presented a paper to the Financial Reporting Advisory Board (FRAB) in November 2022, setting out proposed changes;
- asked CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) to consider a time-limited change to the Accounting Code around operational property, plant and equipment revaluations, with an evaluation of possible consequences of change. In spring 2022 CIPFA/LASAAC decided not to pause valuations due to technical issues and concerns whether it would reduce auditor work; and
- supported a 'task and finish group' on accounting for infrastructure assets (for example, roads, street lighting and flood or coastal defences). This included supporting DLUHC in the development of regulations as a temporary resolution. Fuller consideration is expected to follow through CIPFA/LASAAC's annual consultation process. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 came into force on 25 December 2022.²⁶

²⁶ *The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022*, (legislation.gov.uk), accessed 17 January 2023.

Appendix One

Our audit approach

Our scope

1 This report set out to provide a factual update on developments in the local audit system since our last report on this subject in March 2021. The study intended to provide:

- an update on the performance of the local audit system in delivering published local government accounts with audit opinions by the deadlines set by government for the financial years 2020-21 and 2021-22; and
- an update on the actions the Department for Levelling Up, Housing & Communities (DLUHC) has taken to address the concerns with system performance that the Committee of Public Accounts (PAC) raised in its own report on the local audit system in July 2021.

2 We based our update on published evidence and data, as well as our own experiences of auditing bodies affected by the local audit system in this period. We present a factual update without evaluative conclusions or recommendations.

3 We carried out our work between September and December 2022.

Our evidence base

4 In carrying out this examination we drew on a variety of published evidence sources. To provide evidence on local audit performance we reviewed:

- published data from Public Sector Audit Appointments Ltd (PSAA), which allowed us to compare performance on publishing audited accounts by the deadlines set for 2020-21 and 2021-22;
- websites for the nine local authorities that have opted out of the PSAA procurement system covering these years; and
- published local government Accounts and Audit Regulations and subsequent amendments to track changes to publication deadlines over time.

5 We consulted with National Audit Office (NAO) directors of financial audit covering those central government departments affected most by late delivery of audited local government accounts, to understand and present the impact of these delays.

6 To provide evidence on actions taken since the PAC report of July 2021 we reviewed:

- material published on gov.uk by DLUHC and the Department for Business, Energy & Industrial Strategy (BEIS) providing updates on matters relating to the local audit system such as relevant consultations and respective responses;
- published correspondence between DLUHC, HM Treasury and PAC relating to progress addressing issues relevant to the local audit system;
- reports published by the NAO and PAC on relevant issues such as the Department of Health & Social Care Annual Report and the Whole of Government Accounts; and
- reports, announcements and other information published by relevant bodies including the Financial Reporting Council (FRC), the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Healthcare Financial Management Association.

Appendix Two

Committee of Public Accounts' recommendations and government's responses

1 The Committee of Public Accounts (PAC) has made several recommendations to the Department for Levelling Up, Housing & Communities (DLUHC) to improve the timeliness of audits of local bodies and to support the operation of the local audit market, in its 2021 and 2022 reports. **Figure 7** on pages 40 to 46 sets out PAC's conclusions and recommendations in these reports and the government's responses as published.²⁷ It has not been amended to reflect subsequent events.

²⁷ Committee of Public Accounts, *Local auditor reporting on local government in England*, Eleventh Report of Session 2021-22, HC 171, July 2021; and Committee of Public Accounts, *Local government finance system: overview and challenges*, Thirty-fourth Report of Session 2021-22, HC 646, February 2022

Figure 7

Recommendations from Committee of Public Accounts (PAC) reports and government responses

Local auditor reporting on local government in England (July 2021)

PAC conclusion	PAC recommendation	Government response
<p>1. The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.</p> <p>Only 45% of local authorities published audited accounts on time for 2019–20, despite the Department for Levelling Up, Housing & Communities (DLUHC) having extended the deadline from 31 July 2020 to 30 November 2020, due to the COVID-19 pandemic. This compares with 57% of local authorities which published their audited accounts on time for 2018–19 and 87% in 2017–18. DLUHC says it will set an extended deadline of end September for the next two years. Late audit completion can delay timely management action to address financial or performance issues identified; affect a local authority's annual budget setting and decision-making processes; and impact on the production and audit of other public sector accounts, such as departmental accounts and the Whole of Government Accounts. The audits of local authorities are not of consistently good quality; more than half the audits the Financial Reporting Council (FRC) examined in 2020 needed more than limited improvement. Delays and quality issues undermine the value and purpose of audit, reducing the assurance to taxpayers and elected representatives.</p>	<p>As a matter of urgency, DLUHC should write to us by September 2021 with a detailed plan and timetable for getting local audit timeliness back on track.</p>	<p>The government agrees with PAC's recommendation.</p> <p>Target implementation date: by end of 2021.</p> <p>Timely completion of local authority audit is vital in maintaining the transparency and assurance of local authority accounts to taxpayers and supporting effective financial planning within local and central government.</p> <p>As part of the government's response to the Redmond Review, DLUHC has taken action to help improve the timeliness of auditor reporting, extending the publication deadline for audited local authority accounts to 30 September for two years, provided an additional £15 million to local bodies to help with the costs of audit and new burdens from the review, and committed to amend regulations to provide the appointing person (Public Sector Audit Appointments Ltd or PSAA) with greater flexibility to agree additional costs.</p> <p>The department also welcome the work undertaken by the National Audit Office (NAO) and FRC to update Auditor Guidance Notes 03 and 07, and guidance on going concern, to assist delivery of 2020–21 audits, and are working with stakeholders to consider whether there are other steps that could assist timely delivery.</p> <p>However, it will take time to get things back on track. DLUHC is currently consulting on broader proposals to strengthen the wider system, including to increase auditor capacity and capability. DLUHC will write to PAC in September 2021 with an update on plans and timetable for getting timeliness back on track, and then provide a further update on its work to address timeliness issues, as well as the other recommendations from PAC, as part of DLUHC's response to that consultation, later in 2021. DLUHC has also committed to work with stakeholders and review the audit deadline following the completion of 2021-22 audits.</p>

Figure 7 *continued*

Recommendations from Committee of Public Accounts (PAC) reports and government responses

PAC conclusion	PAC recommendation	Government response
<p>2. There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.</p> <p>Only eight audit firms have the specialist knowledge and accreditation needed to audit local authorities. Currently, the market is dominated by just two firms, which carry out around 70% of local authority audits. The current contracts for auditing local authorities cover the period up to the 2022–23 financial year but PSAA says it can unilaterally extend these contracts for two years, if needed. Existing audit firms have little financial incentive to stay in the market and there are serious and pervasive challenges to increasing audit capacity further. Audit firms that have left the market no longer have the necessary specialist teams in place. New audit firms face considerable barriers in the time and costs involved in gaining entry to the market, such as developing a sufficient sized team of staff with the specialist skills, led by key audit partners, as part of gaining accreditation. DLUHC and PSAA are considering how to overcome these barriers, for example, through small packages of audit work, and through consortia where an accredited firm works with an unaccredited firm to enable future entry to the market. In the meantime, any one firm deciding to exit from the market would create a fundamental capacity gap and harm accountability.</p>	<p>DLUHC should write to us by September 2021 explaining what contingencies it has in place should any more audit firms leave the market at the end of their contracts in 2023.</p>	<p>The government agrees with both PAC's recommendations.</p> <p>Target implementation date: September 2021.</p> <p>The government agrees a decision by firms to withdraw from local audit could pose a risk to the future sustainability of the market. In the Spring Update, the government set out that expanding the number of firms engaged in the market should be a priority for the next procurement and reiterated that PSAA remains best placed to continue acting as appointing body for local audit.</p> <p>The government is working closely with PSAA as it designs its procurement strategy. Given the priority attached to this, it was discussed at the inaugural meeting of the Local Audit Liaison Committee. The PSAA has proposed an increased focus on quality in recent consultations with firms and local bodies, although ultimately prices reflect firms' bids. Additionally, the department is working with PSAA, local audit firms and other key stakeholders to consider what contingencies may be required to support the sustainability of the local audit market.</p> <p>As set out above, the government has committed to amend regulations to provide the appointing person (PSAA) with greater flexibility, including to set standardised fee variations across groupings of bodies, and to amend the fee-setting deadline to allow the appointing person to take account of additional information, to make it easier to reflect additional cost pressures from new requirements.</p> <p>The government will write to to PAC in September 2021, explaining the contingencies that are in place to support the procurement of the next round of audit contracts, although being mindful of not wanting to undermine PSAA's ongoing opt-in and procurement processes.</p>

Figure 7 *continued*

Recommendations from Committee of Public Accounts (PAC) reports and government responses

PAC conclusion	PAC recommendation	Government response
<p>3. The commercial attractiveness to audit firms of auditing local authorities has declined.</p> <p>Audit firms bid for the current contracts to audit local authorities in 2017, but the work involved has increased significantly in response to well-publicised problems in the corporate sector. Fees now bear little relation to the costs audit firms incur to carry out the work. Audit firms point to the increased work required to audit pension and property valuations, and to meet increased regulatory expectations for local audit. Local authorities say the focus on these areas means less attention is paid to more meaningful areas for themselves and their residents, such as their financial resilience, outturn against their budget, and performance outcomes. DLUHC is consulting on changes to the regulations that set the fees, to enable fees to be set closer to when the audit work is carried out, and so that fees can reflect any increase in audit work required. In the meantime, DLUHC is consulting on how to allocate an additional £15 million to help audit firms respond to the pressures in the current year.</p>	<p>DLUHC should ensure that PSAA's next procurement exercise, due to begin in 2021, supports a new fee regime for local government audit, which is appropriately funded, and which brings fees into line with the costs of the work.</p>	<p>Response incorporated above.</p>

Figure 7 *continued*

Recommendations from Committee of Public Accounts (PAC) reports and government responses

PAC conclusion	PAC recommendation	Government response
<p>4. The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.</p> <p>There are serious shortfalls in the number of specialists which audit firms rely on to carry out audits of local authorities. To maintain accreditation, audit firms' key audit partners must have at least three years' oversight experience of auditing local authorities. Worryingly, most key audit partners are over 50 years old and audit firms are likely to find it difficult to replace experienced staff when they retire. The audit firms consider there is a missing generation of auditors with specialist experience of auditing local authorities. A lack of career prospects is a further challenge which audit firms face in recruiting trainees and ensuring they have a sufficient future supply of experienced staff to carry out audits of local authorities. This is not solely a problem for the audit firms and DLUHC is working with the accountancy institutes and the FRC on encouraging people into the sector, making the key audit partner accreditation process smoother, and improving skills development, but this will all take time.</p>	<p>DLUHC should work with the FRC and the accountancy institutions to implement accelerated training and accreditation to increase the supply of qualified auditors quickly, and to build attractive career paths in local audit.</p>	<p>The government agrees with PAC's recommendations.</p> <p>Target implementation date: by end of 2021.</p> <p>The government agrees that a ready availability of skilled and appropriately trained auditors is crucial to ensuring both the long-term sustainability of the local audit market and good quality, timely audit. As Sir Tony Redmond has noted in his review, the local audit market is currently dependent on a few big suppliers and more needs to be done to encourage other firms into the market to support long-term sustainability.</p> <p>The department committed in its December 2020 response to working with the Chartered Institute of Public Finance and Accountancy (CIPFA), the FRC, the Institute of Chartered Accountants in England and Wales (ICAEW) and other stakeholders on both improving auditor training and reviewing the entry requirements for Key Audit Partners and to strike an appropriate balance between ensuring audit quality and market sustainability. The public consultation published on 28 July 2021 sets out proposals from a sector lead working group for delivering this, including to amend Key Audit Partner guidance to facilitate additional routes, as well as proposals to develop a new training offer, and the department is seeking views on whether these activities, or further action, are required to support the pipeline of future auditors, and support new entrants into the market. Alongside this, the Department for Business, Energy & Industrial Strategy (BEIS) is also considering responses to the consultation on its White Paper that includes proposals for increasing competition in the wider audit market.</p> <p>DLUHC will continue to work with FRC, ICAEW, CIPFA, PSAA, and others as the working group develops its proposals and the department considers responses to the consultation and will provide an update on this work in the broader consultation response before the end of 2021.</p>

Figure 7 *continued*

Recommendations from Committee of Public Accounts (PAC) reports and government responses

PAC conclusion	PAC recommendation	Government response
<p>5. We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.</p> <p>In May 2021, DLUHC announced that the system leader for local government audit will be the new Audit, Reporting and Governance Authority (ARGA), the new regulator replacing the FRC. However, ARGA will not be set up until 2023, at the earliest, and doing so will require legislation. Contrary to the Redmond Review recommendations, ARGA will not be responsible for procurement, which will remain with PSAA, due to DLUHC's concerns about potential conflicts of interest. DLUHC will have accounting officer responsibilities for just the local audit element of ARGA, while BEIS will be the sponsor department overall. There is a crisis in local government audit and a need for urgent action to tackle the increasing delays, audit quality and market fragility. DLUHC recognises the importance of stronger system leadership during the transition to ARGA, but we are not reassured that its proposed liaison committee, bringing together all the responsible bodies, will be enough to meet the pressing need for system leadership now. It remains to be seen whether ARGA will then be able to meet fully the ongoing priorities for effective system leadership.</p>	<p>DLUHC should write to us by September 2021 and outline:</p> <ul style="list-style-type: none"> • how it will address the need for strong system leadership now, while ARGA is being set up and established; and • how it will work with BEIS to set up ARGA, the accountability and governance arrangements, and how its performance will be monitored and evaluated. 	<p>The government agrees with PAC's recommendation.</p> <p>Target implementation date: by end of 2021.</p> <p>The government recognises the need for effective system leadership now. The department's Spring Update set out the responsibilities the Audit, Reporting and Governance Authority (ARGA) will have as system leader for local audit and the governance mechanisms which BEIS has been consulting on for the new regulator. The department committed then to a publish a public consultation on the details for Summer 2021 recess and signalled that DLUHC would assume a stronger leadership role in the interim before ARGA is established.</p> <p>DLUHC has already established the Local Audit Liaison Committee, a senior stakeholder forum – as recommended by Sir Tony Redmond to consider systemic issues – with DLUHC as chair while ARGA is being established. An inaugural meeting was held on 29 July 2021 to discuss the development of the next procurement strategy, and meeting minutes will be published in due course, with a further meeting in September 2021.</p> <p>DLUHC's summer consultation reflects further work DLUHC has already conducted with BEIS and FRC on governance and delivery. It has been agreed with BEIS that DLUHC's Secretary of State will send a discrete remit letter to ARGA and that ARGA's annual report will have a standing, distinct local audit section – the government is consulting on the scope of this. This also outlines that FRC will establish interim arrangements from April 2022 to ensure a smooth and timely implementation. Finally, the National Audit Office (NAO) has been liaising with FRC on the range of activities it conducts around the Code of Local Audit to assist with planning for the transfer of the Code to ARGA as system leader.</p> <p>Given views are currently being sought from stakeholders on the proposals ahead of a consultation deadline of 22 September 2021, it is proposed to provide a high-level update in September 2021 and will also consider these points as the department develops its response to that consultation later in the year.</p>

Figure 7 *continued*

Recommendations from Committee of Public Accounts (PAC) reports and government responses

PAC conclusion	PAC recommendation	Government response
<p>6. Unless local authority accounts are useful, relevant and understandable they will not aid accountability.</p> <p>Changes in auditing standards, such as on auditing pensions and grant distribution, have required considerable extra audit time. Some local authorities also have increasingly complex financial arrangements. The more property investments a local authority holds, the more specialist resources the auditor needs to gain accurate estimates of their values. We are concerned that some of the additional audit work now being carried out is disproportionate to the risk to the overall financial stability of the local authority. The accountability of local authorities to stakeholders, such as residents and service users, through audited accounts is a priority. Yet, the accounts of local authorities are impenetrable to many stakeholders. There could be much greater transparency in the financial reporting of local authorities, such as through the inclusion of a simple standard statement, focused on the key issues of most use and relevance to stakeholders, presented in a readily understandable way. DLUHC is working with others to look at simplifying aspects of the accounts of local authorities. It intends that the new system leader will also look into reducing accounting and audit requirements for areas of less risk to local authorities.</p>	<p>DLUHC should write to us by September 2021 with its detailed plans for agreeing with stakeholders ways to focus local authority accounts and audits on areas of greatest risk and concern to citizens.</p>	<p>The government agrees with PAC's recommendation.</p> <p>Target implementation date: September 2021.</p> <p>The government agrees and is clear that local accountability must be at the heart of local government financial reporting. To deliver on this work will require a collaborative effort across the local audit system. DLUHC is currently developing a plan to deliver Sir Tony Redmond's recommendation for each authority to prepare a standardised statement to be presented alongside the statutory accounts with the aim of providing greater transparency of financial reporting.</p> <p>In its Spring Update 2021, DLUHC also set out its intention to work with stakeholders to identify opportunities to reduce some of the accounting and audit requirements where these relate to areas of less risk to local bodies. This includes working with CIPFA to progress its project to improve the presentation of local authority accounts with the short term aims to review the statutory disclosures and materiality and the longer term review of the more complex disclosures that increase the time to prepare for, and audit in, the statement of accounts.</p> <p>The Local Audit Liaison Committee that is now in place to cover the transition period until the new local audit system leader is established at ARGA and will provide a strategic steer to drive progress of the proposed changes aimed at improving the understanding and accountability of local authority reporting. DLUHC is happy to write to PAC in September 2021 with a plan for how work will be progressed.</p>

Figure 7 continued

Recommendations from Committee of Public Accounts (PAC) reports and government responses

PAC conclusion	PAC recommendation	Government response
Local government finance system: overview and challenges (February 2022)		
<p>3. DLUHC did not act with sufficient urgency, nor has it set out an overarching plan and timetable, to address the severe and pressing problems with the local government audit market.</p> <p>Significantly delayed audits are a serious gap in local authorities' accountability to taxpayers and risk undermining public confidence and trust in local government finances. Just 9% of 2020–21 local government body audits were completed in time for audited accounts to be published by the extended deadline of 30 September 2021 and too many audits for 2019–20 and 2018–19 remain outstanding, putting further pressure on the local audit system. Previously this Committee recommended DLUHC set out a detailed plan and timetable for getting local audit timeliness back on track. We also recommended the Department explain how it intended to work with BEIS to set up the new system leader for local government audit, ARGA, and how it would address the pressing need for effective leadership while ARGA was being established. DLUHC agreed with our recommendations however their initial response lacked detail. While we welcome the measures to address the urgent issues in local audit DLUHC has recently announced these will take time to finalise and implement.</p>	<p>DLUHC should provide a detailed timetable and overarching plan that draws together the existing and recently proposed short- and long-term actions to address the problems with local government audit. This should include a clear timetable for finalising the local audit functions of ARGA, the transition arrangements and a mechanism to keep this committee updated on progress.</p>	<p>The government agrees with PAC's recommendation.</p> <p>Target implementation date: Spring 2022.</p> <p>DLUHC remains committed to strengthening the local audit market. Since July 2021 the department has acted as interim system leader, leading work across the system through the Local Audit Liaison Committee. This has included securing agreement with key partners to a package of measures designed to help improve the timeliness of local audit, published in December 2021. The package has been broadly welcomed by the sector. Furthermore, Public Sector Audit Appointment Ltd (PSAA) announced in March that 99% of eligible local bodies have joined its national scheme for auditor appointments, which will cover the audits for the financial years 2023-24 to 2027-28.</p> <p>The FRC has now recruited its first Director of Local Audit. The appointment of Neil Harris to lead the FRC's dedicated local audit unit was announced on 13 March. The department is also working closely with the FRC and the NAO on requirements for the new unit ahead of the commencement of shadow system leadership arrangements at the FRC in the coming months. This will include a timetable for the transition which takes into account the new Director's start. While this unit builds capacity, the department will maintain its enhanced leadership role and will act as joint Chair of the Local Audit Liaison Committee from May, as part of the transition arrangements to the FRC.</p> <p>DLUHC will publish the response to its consultation Local audit framework: technical consultation shortly. DLUHC therefore proposes updating the Committee in spring 2022, after the outcome of this consultation and BEIS response on the White Paper Restoring trust in audit and corporate governance have been published and the early stages of the procurement process completed. This will enable a more detailed response on the transition to the new arrangements and proposed junctures for further updates.</p>

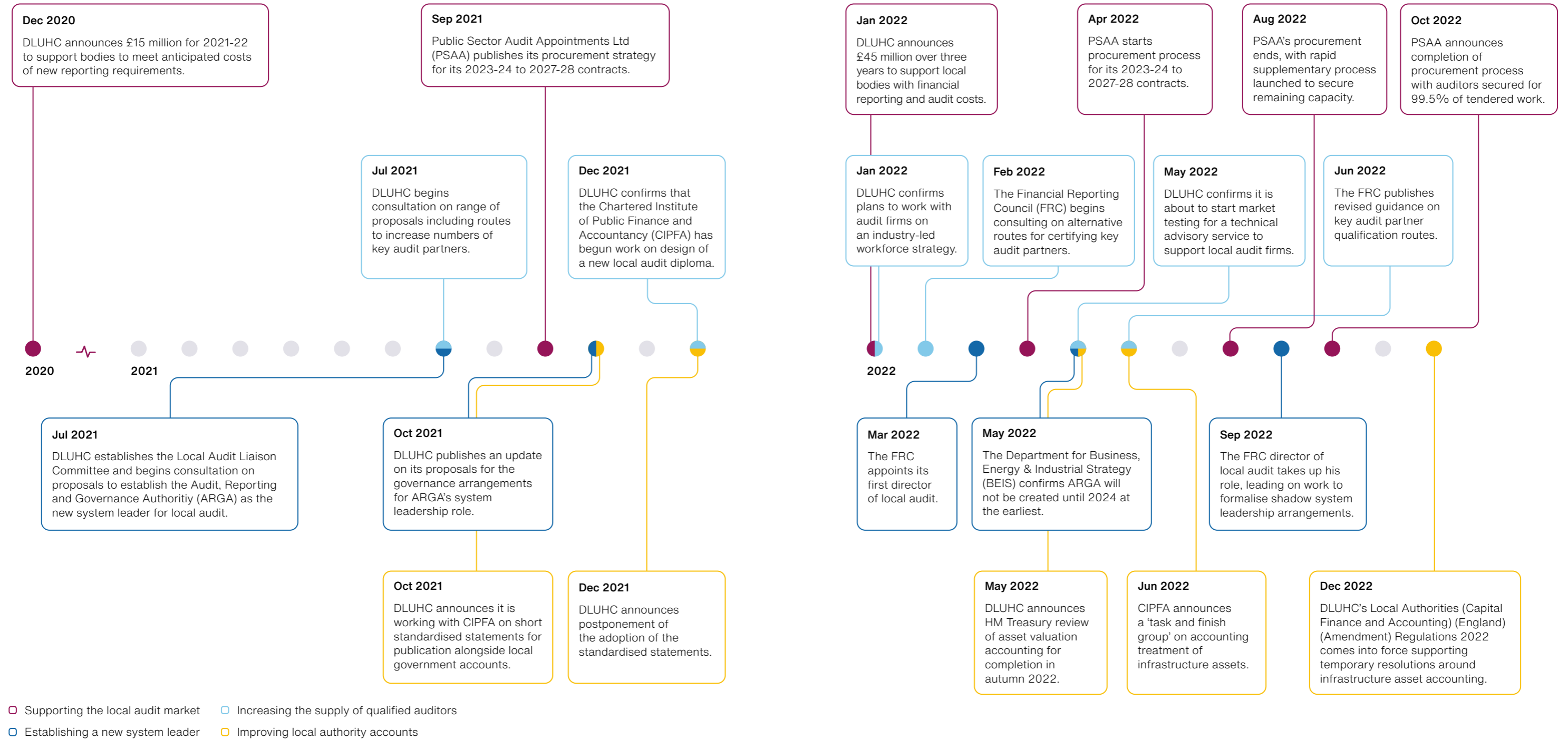
Appendix Three

Timeline of actions since 2021

1 See **Figure 8** on pages 48 and 49.

Figure 8
Timeline of actions since 2021

The Department for Levelling Up, Housing & Communities (DLUHC) and others have taken steps to tackle the challenges in local audit



Source: National Audit Office analysis of published data

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National Audit Office

Design and Production by NAO Communications Team
DP Ref: 012427-001

£10.00

ISBN 978-1-78604-468-6



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