

<b>SUBJECT:</b>	<b>DLUHC: MEASURES TO IMPROVE LOCAL AUDIT DELAYS</b>
<b>DIRECTORATE:</b>	<b>CHIEF EXECUTIVE</b>
<b>REPORT AUTHOR:</b>	<b>JACLYN GIBSON, CHIEF FINANCE OFFICER</b>

## **1. Purpose of Report**

1.1 To provide the Committee with a summary of the Government's announcement of a new series of measures to support the timeliness of local audit (conducted by external audit), and the implications for the Council.

## **2. Background**

2.1 Local government audit plays a vital role in providing local authorities with accurate and reliable financial information to plan and manage their services and finances effectively. The timely completion of local audits also ensures local authority financial arrangements, including whether value for money is being achieved, are transparent to the taxpayer, and facilitates assurance for the public sector.

2.2 There have been several challenges around the timeliness of local audits in recent years with only 45% of 2019/20 audits completed by the deadline of 30<sup>th</sup> November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30<sup>th</sup> September 2021 (CoLC not being one of the 9% completed on time).

2.3 There are a variety of reasons for this including:

- Audit firms are seeing a high turnover of qualified staff.
- Increase in audit scope and regulatory pressures; and
- Local authorities have competing priorities and have often diverted their resources from the audit process to other areas, affecting their preparedness for audit, exasperated by the COVID 19 pandemic (not applicable to CoLC).

2.4 Given the complexities of the drivers behind the audit delays, the Government are clear that a whole system response is needed, with local bodies, audit firms, regulatory bodies and code-setters working collectively to implement solutions across the sector.

2.5 The Government is continuing to prioritise measures to improve timeliness and support capacity as part of it's response to the Redmond Review (previously reported to this Committee on 23<sup>rd</sup> March 2021). Measures taken to date include:

- Greater flexibility given to the Appointing Person through streamlining the fee variation process and extending the deadline for setting fees to take into consideration latest market considerations.

- Providing £15m additional funding to local bodies for 2021/22 to support implementation of recommendations from the Redmond Review and additional costs relating to new audit requirements.
- Extension of the statutory deadline for publishing local authority accounts to 30<sup>th</sup> September from 31<sup>st</sup> July from 2020/21 for 2 years.
- Consulted on proposals for a new systems leader body for local audit.

2.6 However, while these changes will be beneficial in the longer term, additional short-term measures are required to address the deterioration in timeliness.

### 3. Measures to improve local audit delays

3.1 In December 2021, the Government committed to a series of new measures to support improved timeliness and the wider local audit market. These measures are summarised in the table below with further detailed analysis, including the potential impact on the Council, set out in Appendix A.

3.2

Section	Key Point/Measures
<b>Section 1</b> – Measures relating to audit firms and timely completion of audits	Financial Reporting Council to revise Key Audit Partner guidance and CIPFA to develop local audit training diploma and provide technical advisory service to auditors.
<b>Section 2</b> – Measures relating to local bodies and quality of accounts preparation	Government to provide additional resources to local authorities and CIPFA to publish guidance on audit committees.
<b>Section 3</b> – Proposed measures relating to accounting and audit requirements	National Audit Office to review auditing requirements and CIPFA to review accounting requirements as well as delaying implementation of standardised statements.
<b>Section 4</b> – Longer-term measures to help stabilise the market and address long-term supply issues	Extending deadline for audit of accounts, providing certainty of auditing requirements over the appointing period, development of industry-led workforce strategy.

### 4. Strategic Priorities

4.1 There are no direct implications for the Council’s strategic priorities. The external audit of, and production of, the Council’s financial statements is a statutory requirement and as such contributes towards the fitness for purpose of the Council’s governance arrangements.

### 5. Organisational Impacts

## 5.1 Finance

To support implementation of the [Redmond review](#) recommendations, DHLUC has provided local authorities with £15 million in additional funding in 2021/22. The Council's allocation was announced as £18,729. A further £15m pa of funding for local authority's, covering the 3-year period from 2022/23 has been announced as part of these new measures. Specific allocations have not been announced, but the Medium Term Financial Strategy assumes that the allocation will be in line with the 2021/22 award.

## 5.2 Legal Implications including Procurement Rules

The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.

The council will need to ensure it complies with any changes to the codes of practice and legislation as these arise.

## 5.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

Due to the nature of the report, no specific Equality Impact Analysis is required.

## 6. Risk Implications

6.1 There are no direct risk implications arising as a result of this report.

## 7. Recommendation

7.1 The Audit Committee note the latest measures that have been announced and the potential implications for the Council.

Key Decision	No
Do the Exempt Information Categories Apply?	No
Call in and Urgency: <b>Is the decision one to which</b>	No

**Rule 15 of the Scrutiny  
Procedure Rules apply?**

How many appendices  
does the report contain?

One

List of Background Papers: Redmond Review into the oversight of local audit and the  
transparency of local authority financial reporting –  
Audit Committee, 23<sup>rd</sup> March 2021.

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<b>Section 1 – Measures relating to audit firms and timely completion of audit</b>	
<b>Measure</b>	<b>Impact on CoLC</b>
FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP.	This is training support for external auditors to allow new route for auditors to become key audit partners. The Council should see a better quality of audit as a result.
Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants.	Designed to increase supply/quality in the audit market, external auditors will have a larger pool of talent to choose from. The Council should see a better quality of audit as a result.
<b>Section 2 – Measures relating to local bodies and quality of accounts preparation</b>	
<b>Measure</b>	<b>Impact on CoLC</b>
DLUHC to provide further funding of £45 million over the course of the next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.	The Council is due to receive £0.018m of the £15M for 21/22 to support new burdens from the new VfM requirements placed on audited bodies/external auditors. It is expected that the Council will be entitled to a similar amount p.a. for the next 3 year period (22/23 – 25/26).
DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs.	Establishment of a targeted forum to be attended by the Council's Audit Committee Chair (first forum to be held on 22 <sup>nd</sup> March 2022).
CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, CIPFA will consider making the guidance, audit committee/independent member processes a statutory requirement.	Council to provide Audit Committee training on new guidance if required and consider any changes required to the Audit Committee's Terms of Reference and/or work programme.  No other implications on independent member as already part of Committee structure.
<b>Section 3 – Proposed measures relating to accounting and audit requirements</b>	

Measure	Impact on CoLC
<p>NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for alteration of the timing of elements of the VfM arrangements work and to enable more focus on fully delivering opinions on the financial statements in line with statutory timeframes.</p>	<p>Audit of VfM for 2020/21 continues to the revised deadline, following issuing of audit opinion for the financial statements.</p>
<p>CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles. HMT to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards.</p>	<p>Potential change to the format / structure of the accounts from 22/23, to make financial information more transparent and accessible for lay people.</p>
<p>The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22.</p>	<p>A potential change to how fixed assets are valued for 21/22 which may change both accounting and auditing requirements. These changes have recently been consulted upon and an outcome is awaited ahead of the preparation of the 21/22 accounts.</p> <p>The Council is concerned that whilst these changes may reduce audit work in the short term, they may potentially create issues in later years as they are unwound. Additionally, the proposals focus on property valuations, the majority of work on which has already been undertaken by Council's ahead of the outcome of the consultation.</p>
<p>Delaying the implementation of standardised statements and associated audit requirements</p>	<p>Delay to the implementation of these proposals will allow officers to concentrate on the wider issues associated with the current accounting/auditing requirements.</p>
<p><b>Section 4 – Longer-term measures to help stabilise the market and address long-term supply issues</b></p>	
Measure	Impact on CoLC

## APPENDIX A

<p>PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24.</p>	<p>The Council's approach in terms of the next round of local audit contracts was presented to Audit Committee on 14<sup>th</sup> December 2021 and approved by Council on 18<sup>th</sup> January 2022.</p>
<p>Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 22/23 – 27/28.</p>	<p>The auditing period is extended which places elongated pressure on Council finance staff in respect of the resources involved in supporting the audit.</p> <p>Clarity is required on the proposed deadline in terms of whether the Council is still required to submit draft accounts by the end of May from the 22/23 accounts onwards.</p>
<p>NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period.</p>	<p>This provides clarity of the auditing requirements for the appointing period which will provide stability to audit firms.</p>
<p>Developing an industry-led workforce strategy, working with system leaders and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.</p>	<p>Provides framework for external audit services moving forwards.</p>