

Guidance

Measures to improve local audit delays

A new package of measures to support the improved timeliness of local audit.

From:

[Department for Levelling Up, Housing and Communities](#)

Published

16 December 2021

Applies to England

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This publication sets out a range of measures agreed with key partners to support the timely completion of local government audits and the ongoing stability of the local audit market. These measures will help to ensure that audit provides transparency and accountability in local councils.

Context

1. The government's priorities for local audit are a strong and coordinated quality framework, a buoyant local audit market, and improved transparency and governance.
2. 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 audit 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 more broadly through the audit of the Whole of Government Accounts.
3. We remain committed to the principles of a locally-led audit regime, as embodied in the Local Audit and Accountability Act 2014 and have further demonstrated our commitment to this vision for the local audit market through our response to Sir Tony Redmond's [independent review](#) of local authority financial reporting and external audit. The government is also grateful for the support shown by stakeholders across the sector, who have been working with us to implement the Redmond Review recommendations.
4. However, challenges remain around the timeliness of local audit, one of the key issues highlighted by Sir Tony. In 2017/18 the deadline for issuing audit opinions was brought

forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.

5. As the National Audit Office (NAO) outlined in its 2020 report [Timeliness of local auditor reporting on local government in England](#), a variety of complex factors are contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.
6. In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations. In some cases, issues with the preparation of local authority accounts have led to delays in audits being signed off.
7. In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.
8. Considering the complexity of the drivers behind audit delays, it is 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.
9. The government is continuing to prioritise measures to improve timeliness and support capacity as part of our response to the Redmond Review. We laid new regulations on 21 October to provide greater flexibility to the appointing person through, for example, extending the deadline for setting fee scales so that they can reflect the most recent market conditions, and streamlining the fee variation process under certain circumstances. We are also providing £15 million additional funding to local bodies for 2021/22 to support with the implementation of recommendations following the Redmond Review and additional costs resulting from new audit requirements, including the new value for money reporting arrangements. In addition, we have extended the statutory deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21 for 2 years.
10. We recently consulted on proposals for the Audit Reporting and Governance Authority (ARGA), the new body being established to replace the Financial Reporting Council (FRC), to take on a systems leader role for local audit. Ensuring there is a strong system leader will help to ensure broader alignment across the system to respond to challenges within the market. However, while these changes will be beneficial in the longer-term, it is

clear that we need to go further in the short-term to address the stark deterioration in timeliness.

11. The government emphasised this point at a recent discussion of the [Local Audit Liaison Committee](#) on 21 September, where it was noted by members that, while in the past, ensuring the quality of the final audit had been the priority, timeliness had worsened to the extent it had become a quality issue.
12. This paper therefore sets out a series of additional measures committed to by government and other key stakeholders to support improved timeliness and the wider local audit market.

Section 1: Measures relating to audit firms and timely completion of audit

Summary of commitments

- A. FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP
 - B. 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
15. All stakeholders across the local audit market have a key role to play in helping to get timeliness back on track. That is why DLUHC has been engaging with audit firms since the summer to understand the issues that are affecting the stability of the market, including timeliness.
 16. Most recently, the Minister of State for Levelling Up, Housing and Communities, Kemi Badenoch MP, met with audit firms to explore market issues and to emphasise the need for firms to work with government to get the timely completion of local audit back on track as quickly as possible. The FRC have also held discussions with audit firms to highlight the importance of clearing the backlog of delayed audits, and highlighted the issue when publishing its most recent Audit Quality Inspection.

Training and qualifications

17. Through our engagement with audit firms, we have heard that the capacity of firms is being limited by a lack of qualified, experienced auditors, a finding which was also highlighted in the NAO's report.
18. In response to Sir Tony Redmond's recommendations, we sought views in our technical consultation this summer on proposals for improving training and qualification support, and on the FRC's review of the Key Audit Partner (KAP) guidance. These proposals have been positively received by audit firms, as well as other respondents to the consultation, and we will respond to this as part of our formal consultation response in the new year.
19. In the interim, the capacity and capability working group is continuing to develop the proposals. This includes proposed updates to the KAP guidance, allowing new routes for experienced Registered Individuals (RI) to become KAPs and allowing the local audit

Recognised Supervisory Bodies greater discretion in determining the suitability of the experience gained by KAP applicants without a reduction in audit quality.

20. The FRC is planning to consult on its proposed KAP guidance updates in early 2022, seek approval through its internal governance procedures and will aim to publish the guidance in spring 2022.
21. CIPFA is progressing development of the new local audit training Diploma in local government financial reporting and management aimed at senior auditors and other levels of auditor. It will be designed to meet the technical training needs of experienced RIs, who have not met the full existing criteria for local audit experience. It will also meet the immediate recommendations from the Redmond Review, and in particular, support firms who may bid in the next opt-in procurement for local audit contracts managed by PSAA, given the desire to attract new entrants to the market who do not currently hold local audit contracts.
22. CIPFA is working with other stakeholders to continue to refine their proposal for a new technical advisory service in consultation with the industry. This service is expected to support on topics unique to the local government sector providing the local audit system with:
 23. specialist technical advisory service to local auditors responding to difficult or complex audit queries
 24. advice and guidance to auditors on how to respond to elector's objections
 25. guidance on how and when to produce a public interest report
 - advice on performance audit issues (for VfM reporting) and
 - to address difficult, technical issues or audit judgements including judgements over how to respond to objectors or whether an issue identified meets the threshold for issuing a public interest report
26. This may be run as a digital platform utilising experienced personnel from the sector. We expect to provide further information on this in the New Year, subject to finalising the details with relevant partners, and considering the business case and appetite from firms, given it would be sustained by an audit firm-funded approach in the longer-term.

Section 2: Measures relating to local bodies and quality of accounts preparation

Summary of commitments

- A. DLUHC to provide further funding of £45 million over the course of 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.
- B. 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, consider making the guidance, committees and the independent member statutory

- c. DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs

- 25. As outlined in the sections above, although many local authorities prepare their accounts to a high standard within the statutory deadline, and generally do meet the deadline for providing draft accounts, there are instances where issues with the preparation and quality of local authority accounts contribute to delays in the auditor's opinion being issued.
- 26. We recognised that implementing the recommendations from the Redmond Review, and the new value for money elements of the Code of Audit Practice, would likely place greater pressure on local authority finance functions, especially in light of increased audit fees, and therefore are providing with £15 million of additional funding in the 2021/22 financial year to support local bodies to meet these new burdens.
- 27. On 26 November, Catherine Frances, Director General for Local Government, wrote to all local authority Section 151 Officers to emphasise the need for local bodies to work with audit firms as part of a system-wide response to clear the backlog of delayed audits.

Audit committees

- 28. The government is committed to supporting the improvement of audit committee arrangements and delivery of good practice in response to Sir Tony's recommendations through the development and production of strengthened guidance on audit committees. CIPFA is leading this work, with support and input from the LGA, PSAA, and others, and revised guidance will be published in spring 2022.
- 29. This guidance will emphasise the important role that audit committees have in ensuring that accounts are prepared to a high standard and that issues identified by audit firms are resolved swiftly. It will also include guidance on the appointment of independent members, who can often play a key part in ensuring the apolitical role of the audit committee. The government has recently consulted on whether the guidance, or the principle of audit committees themselves, should be made a statutory requirement, and will be setting out a response in due course, including the case for making independent members a statutory requirement.
- 30. The guidance will also allow content to be targeted at the different audiences given the role that audit committee members, those guiding and supporting the committee, and local body leadership teams all have in ensuring the processes work effectively.
- 31. Further, to strengthen the capability and skills of audit committee members, the Local Government Association, with support from DLUHC, will establish a number of targeted forums.

Ongoing financial support

32. The government will be going even further 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.
33. As well as the £15 million provided for 2021/22, the government can confirm today it is providing local bodies with £15 million additional funding per annum for the next 3 years – totalling £45 million over the Spending Review period. This will provide local bodies with the certainty that they will be supported to implement the changes needed to respond to new auditing requirements and Redmond's recommendations.

Section 3: Proposed measures relating to accounting and audit requirements

Summary of commitments

- A. NAO rolling over of amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the VfM arrangements work and enable more focus on fully delivering opinions on the financial statements
 - B. 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
 - C. The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22
 - D. Delaying implementation of standardised statements and associated audit requirements
34. It is important that local authority accounts and audits are focused on areas of greatest risk and concern to citizens. These should be transparent and accessible, while also being mindful of the need to ensure that they comply with International Financial Reporting Standards and Whole of Government Accounts requirements.
 35. In our spring report, we highlighted that, given the fundamental capacity issues facing the audit sector, we wanted to work with partners to consider whether there were opportunities to reduce some of the accounting and audit requirements where these relate to areas of less risk to local bodies, as well as other options to assist timely delivery of audits.
 36. Since then, we have been working with members of the liaison committee, audit firms and local bodies to consider this question, and have agreed a number of measures that should help ameliorate capacity pressures, and facilitate more timely completion of audited accounts.
 37. **Code of Audit Practice and Auditor Guidance Notes.** To assist with the delivery of 20/21 audits, the NAO and FRC made amendments to guidance, including Auditor Guidance Notes 03 and 07, as well as the guidance note on going concern. The changes which

included altering the timing of elements of the VFM arrangements work, have allowed more focus on fully delivering opinions on financial statements.

38. Given the ongoing nature of delays, the NAO have proposed continuing these arrangements for as long as they are beneficial, including for at least 21/22 audits.
39. **Changes to the Accounting Code.** Local authority accounts are complex in that they are required to comply with both IFRS and statutory accounting principles. This effectively entails presenting two different forms of reporting in one set of accounts, which can be confusing to non-specialists. In recognition of this additional complexity, CIPFA/LASAAC agreed a project in June 2021 to improve the presentation of local authority accounts, which is intended to inform the development of the 22/23 Accounting Code.
40. Through engagement with relevant organisations, we have been advised that, in some cases, local authority accounts include some information that goes beyond what is necessary, leading to additional auditing work. We would therefore recommend local authorities consider [CIPFA's guidance on streamlining the accounts](#), which provides practical suggestions on how accounts can strike a better balance between compliance with standards and providing clearer, simpler and more transparent information.
41. HM Treasury will be undertaking a thematic review of the valuation of non-investment property for financial reporting purposes in the public sector, including the long standing policy decision to hold such assets at valuation rather than historic cost. This will consider the benefits to users of the financial information and the associated costs. It will look to identify where burdens could be reduced without compromising the needs of users. It is intended that this will inform development of the Accounting Code from 22/23 onwards.
42. The government has also asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for operational property, plant and equipment revaluations under certain circumstances (this would not include investment properties). An evaluation of possible consequences (unintended or otherwise) will be undertaken before any new proposals are finalised in the new year.
43. **Standardised statement of service information.** In our original response to the Redmond Review, we accepted the recommendation to produce a new standardised statement of service information, that would help to improve the transparency and understandability of local authority financial reporting. While we remain committed to this, we are delaying implementation while audit timeliness issues are so severe, as we do not think it is the right time to introduce these new accounting and auditing requirements.
44. **Public Interest Entities.** Local authorities which have debt listed on the London Stock Exchange fall within the definition of a Public Interest Entity (PIE). The FRC place additional requirements on auditors for local authorities which are deemed PIEs. A local authority PIE audit therefore tends to require more resources in terms of finance, time and specialist staffing to produce the audit opinion. This is not necessarily as valuable as for a private sector PIE, given that enhanced levels of transparency and scrutiny already apply for local government financial reporting.
45. The government recently consulted on expanding the definition of a Public Interest Entity, although this did not propose expanding the number of local authorities included

in the definition. The government has noted representations from stakeholders on this question, including the additional burdens of extending the PIE definition to any further local authorities, and will confirm the position on this in the consultation response in due course.

Section 4: Longer-term measures to help stabilise the market and address long-term supply issues

Summary of commitments

- A. PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24
- B. Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts, then 30 September for 6 years, beginning with the 22/23 accounts.
- C. 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
- D. Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications

46. While the measures outlined in the sections above are designed to support improved timeliness in the short-term, it is clear that certain issues within the local audit market require a longer-term approach.

Procurement/ next appointing period

- 47. One such area concerns the procurement arrangements for local bodies, being managed by PSAA.
- 48. We have been working closely with PSAA since the Summer on their procurement strategy, which has been considered at key stages in its development by our new Liaison Committee. We are also currently finalising an updated Memorandum of Understanding between DLUHC and PSAA to reflect the interim system leadership arrangements, in line with the commitments we made in our spring report, while PSAA are currently accepting opt-in requests from local bodies ahead of their planned Invitation to Tender in April 2022.
- 49. PSAA published its updated procurement strategy in September 2021, which outlines their key objectives. These include encouraging existing suppliers to remain and creating opportunities for new suppliers to enter the market, encouraging prices which are realistic in the context of the current market, and encouraging existing suppliers to bid for new contracts. Further objectives include encouraging prices which are realistic in the context of the current market and supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery. Another key objective is to deliver audits that are of the required quality.

50. Specific proposals to achieve these objectives include the proposed 80/20 quality/cost evaluation methodology ratio, a proposed increase in the number of lots to somewhere between 7 and 11 with at least 2 further 'development lots', and the introduction of a new Dynamic Purchasing System.

Audit deadlines

51. We also recognise that the extent of ongoing changes in the local audit system is unhelpful to audit firms who are looking to plan for the next 5-year appointing period.

52. In March 2021 new regulations came in force to extend the deadline for publishing audited local authority accounts to 30 September from 31 July from 2020/21. We also extended the deadline for the preparation of draft accounts from 31 May to 31 July. We committed to review both these changes after 2 years.

53. In light of the extent of ongoing delays and capacity issues, a decision to revert to the previous deadline of 31 July for publishing audited accounts would be both unrealistic and counterproductive, especially as the backlog of delayed 2020/21 audits will likely have knock-on effects for future years. However, there are good reasons why an earlier deadline would be beneficial; elements of multiple central government departments' and arms-length bodies' accounts are subject to local audit (e.g. because they employ staff on local government pension schemes) and so extending the deadline risks the timely completion of those bodies' accounts, which in turn can delay the preparation of the Whole of Government Accounts.

54. Therefore, we will, subject to consultation, introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 21/22 accounts. Following this, to provide certainty for the next contract period under the procurement arrangements being managed by PSAA, the deadline will revert to 30 September for 6 years, until the end of the next appointing period. The intention is for this change to take effect for the 22/23 accounts and end once the 27/28 accounts have been completed. We will then review the deadline after this point.

55. In addition, subject to consultation, our intention is for the deadline for preparing draft accounts to revert to 31 May for the 22/23 accounts onwards. The extended deadline of 31 July will still apply for the 21/22 accounts. We are confident local authorities will be able to meet this requirement and believe reverting to an earlier deadline is important to minimise disruption to the Whole of Government Accounts.

Code of Audit Practice

56. We also recognise the importance of having clarity over the scope of audit in future years, given any future additional requirements would necessitate increased audit capacity. To provide greater certainty to local auditors, we have agreed with the National Audit Office (NAO) and FRC that, as part of their current Code setting responsibilities, the NAO will prepare for a re-laying of the Code of Audit Practice 2020 in parliament in the new year, so that it will apply for the whole of the next appointing period.

Industry-led workforce strategy

57. We hope that these measures will help to provide clarity and security ahead of the next procurement, as well as helping to ensure that all parties can play their part in getting audit timeliness back on track in the short term.
58. We also remain committed to resolving the issues in the longer-term, which our wider system leadership reforms should help to address, and we will publish our formal consultation response in the new year.
59. One of the priorities for the new system leader, being established in shadow form from spring 2022, will be to address the fundamental audit capacity issues.
60. To aid this, we are proposing that, following the outcome of the next local audit procurement, DLUHC will work with the new system leader and 1-2 of the successful audit firms to develop an industry-led workforce strategy, to consider the future pipeline of local auditors, and associated questions related to training and qualifications. This will form part of the new system leader's broader role in setting out the future priorities for the local audit system.

Section 5: Next steps

61. Following today's publication, we will continue to work closely with key partners across the audit sector, including local bodies and audit firms, to deliver on the measures above, in addition to outstanding commitments we made in our response to the Redmond Review.
62. As part of this work, we will be publishing our response to the technical consultation we carried out this summer, which will provide further detail on the future of systems leadership for local audit. Our consultation response will also update on a number of the commitments we have made today.

Published 16 December 2021