

# Joint Audit and Governance Committee



Report of Head of Finance

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To: Joint Audit and Governance Committee

DATE: 26 September 2023

## Local audit update

### Recommendation

Joint Audit and Governance Committee is recommended to note the report

### Purpose of Report

1. To provide the committee with an update on government proposals to tackle the delays experienced nationwide in the completion of the external audits of local authority accounts.

### Background

2. As members of the committee will be aware, for some time there has been a significant national issue regarding the timely completion of the external audit of councils' accounts and the subsequent publication of final, audited accounts. In November 2020 the committee received a report on the findings of a report into the effectiveness of local authority financial reporting and audit conducted by Sir Tony Redmond. As reported to committee in November 2020, the Redmond review identified a number of key issues with local audit, including:

- An ineffective balance between price and quality with 40 per cent of audits in 2018/19 failing to meet required reporting deadlines in part due to under-resourcing and lack of experienced staff
  - A lack of coordination and regulation of audit activity
  - Outcomes not always being effectively considered and presented to the local authority and public
  - The technical complexity of statutory accounts limiting public understanding and scrutiny
3. The nationwide issues have continued since that report was issued, and on 18 July 2023 an update letter was received from Lee Rowley MP, the Parliamentary Under-Secretary of State for Local Government and Building Safety, together with a “Cross-system statement on proposals to clear the backlog and embed timely audits”.
4. The letter confirmed that:
- Only 27 per cent of local authority audits for the 2021/22 financial year have been completed (i.e. the final, audited version of the accounts has been published) by July 2023. The statutory deadline for completion of these was 30 November 2022, and
  - The combined total of outstanding local audits dating back to 2015/16 is nearly 520.
5. As outlined in the cross-system statement, the proposal for dealing with the backlog is that the National Audit Office (NAO) and the Department for Levelling Up, Housing and Communities (DLUHC) would set a series of statutory deadlines for accounts preparers and auditors to clear the backlog of delayed audits for financial years 2015/16 to present. Auditors would be required to provide as much assurance as possible for the outstanding years, but it is acknowledged that these proposals may result in qualifications or disclaimers for a number of local bodies.
6. The statement also focusses on the need for longer term change to ensure that there is no repeat of the backlog. This work is looking at:
- Competition, capability and supply in the local audit market
  - Proportionate financial reporting, auditing and regulatory requirements.
7. The letter from Lee Rowley MP is attached as appendix one to this report, with the cross-system statement attached as appendix two. They indicated that the proposals would be subject to further consultation over the summer, including with Section 151 Officers, Chief Executive Officers, elected representatives, the Local Government Association and audit firms, with a view to implementation to begin by the end of December 2023.

**Further developments, and implications for the councils**

8. Further to the letter and cross-system statement, a webinar was held on August 1 2023 which identified that the proposed statutory deadlines being considered were as follows:

<b>Financial years</b>	<b>Proposed statutory deadline</b>
2015/16-2019/20 accounts	31 December 2023
2020/21-2021/22 accounts	31 March 2024
2022/23 accounts	30 September 2024
2023/24 accounts	31 March 2025

At the time of writing there has been no further formal communication since 18 July.

9. For South and Vale, the audit and publication of all accounts up to and including the 2020/21 financial year have been completed. The audit of the 2021/22 accounts is nearing completion and an additional meeting of this committee has been scheduled for Monday 30 October 2023 for the accounts to be received and considered.
10. For the 2022/23 accounts, further clarity is needed on the government’s proposals for local audit before EY can confirm how they will approach the audit of the councils’ accounts, and when the audit will take place. When EY are in a position to consider this and have shared their approach with officers, we will communicate this to the committee.
11. The 2023/24 accounts will be the first accounts that will be audited by Bishop Fleming, who are new to the local government audit market. Whilst officers have had an introductory meeting with senior managers from Bishop Fleming there is little that that Bishop Fleming can practically do at this stage until clarity over the 2022/23 audit process is received.

**Climate and ecological impact implications**

12. There are no direct climate and ecological impact implications of this report.

**Financial Implications**

13. These are included in the body of the report.

**Legal Implications**

14. 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. They may need to be reviewed and amended to facilitate the actions set out in this report.

15. The Council will need to ensure that arrangements are put in place to comply with any amendments to the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 and statutory guidance.

## **Risks**

16. Without further clarity on the government's proposals for local audit it is difficult to be clear on any risks arising from their implementation at this stage.

## **Conclusion**

17. There is a clear need to deal with the current nationwide problem of the backlog of local audits, and the letter and cross sector statement show that the issue is being given serious consideration. Officers will continue to keep the committee updated as more details on the proposals come forward.

## **Background Papers**

Appendix one – Letter from Lee Rowley MP

Appendix two - Cross-system statement on proposals to clear the backlog and embed timely audits.