

Report to Audit Committee



By the Director of Resources
INFORMATION REPORT

Not Exempt

Financial reporting and audit

Executive Summary

In March 2023, the Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.

This comes at a time when the timeliness of audit opinion published by the deadlines set by government has fallen from 97% in 2015/16 to only 12% in 2021-22.

Recommendations

That the Committee is recommended to:

- i) Respond, via a letter from the Chairman of the Audit Committee on behalf of the Audit Committee, to the DLUHC inquiry before Monday 17 April 2023.

Reasons for Recommendations

- i) To provide evidence to help DLUHC Committee examine how local authority financial reporting could be improved to better engage with taxpayers and other stakeholders.

Background Papers

National Audit Office - Progress update: Timeliness of local auditor reporting on local government in England

<https://www.nao.org.uk/reports/progress-update-timeliness-of-local-auditor-reporting-on-local-government-in-england/>

UK Parliament Committees

<https://committees.parliament.uk/committee/17/levelling-up-housing-and-communities-committee/news/186485/levelling-up-committee-launches-inquiry-on-local-audit/>

Wards affected: n/a

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Background Information

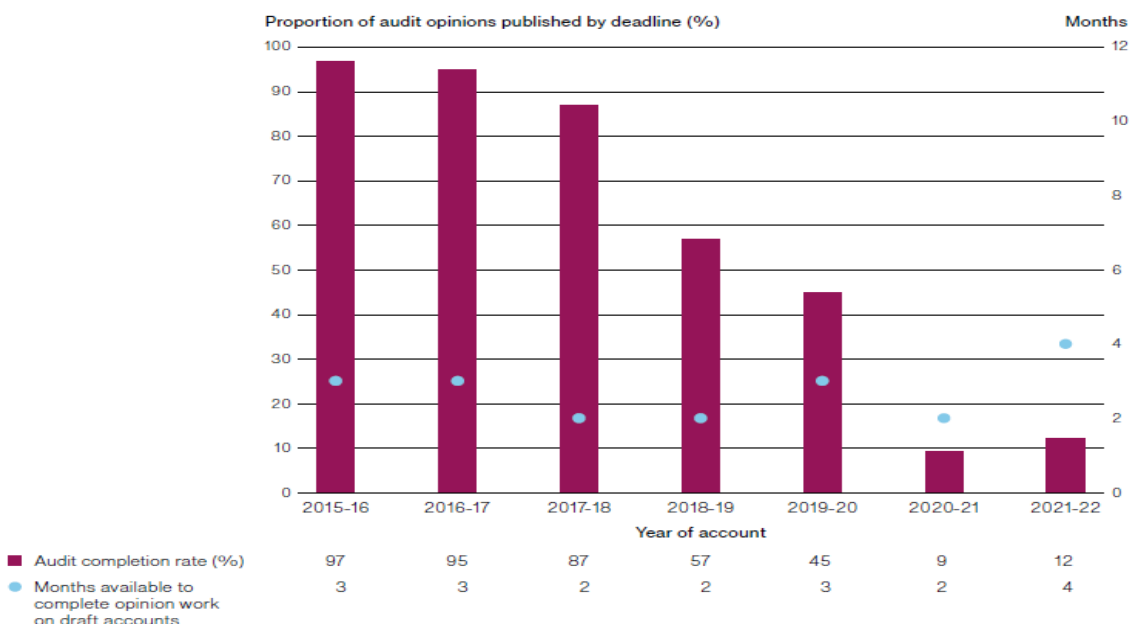
1 Introduction and Background

- 1.1 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.
- 1.3 Since 2017-18 though 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. The graph below, published by the National Audit Office shows the decline in performance from 97% in 2015-16 to only 12% in 2021-22.

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



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

- 1.4 There are also challenges in the local audit market. To tackle these challenges, Public Sector Audit Appointments (PSAA) Limited 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. It has encouraged new audit supplier entrants into the market, and it is looking at ways to increase the supply of qualified auditors.
- 1.5 Working with the Financial Reporting Council (FRC) and Institute of Chartered Accountants in England and Wales (ICAEW), DLUHC has taken steps towards creating a new system leader for local audit. The expected establishment of the Audit, Reporting and Governance Authority (ARGA), is due to replace the FRC in 2024 at the earliest as the new regulator for corporate governance and audit.
- 1.6 In March 2023, the Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings. The results of this are intended to help shape future policy.

2 Relevant Council policy

- 2.1 A modern and flexible Council - making it easy for our residents to access the services that they need. The Council continues to provide the quality, value for money services that people need throughout the 2020s.

3 Details

- 3.1 In March 2023, the Levelling Up, Housing and Communities Committee launched an inquiry into financial reporting and audit, examining a range of issues relating to the purpose and understanding of local audit and the impact of local authority accounts and audit findings.
 - [Inquiry: Financial Reporting and Audit in Local Authorities](#)
 - [Levelling Up, Housing and Communities Committee](#)
- 3.2 The inquiry will scrutinise the role of audit in local accountability and democracy and the extent to which accounts provide a clear picture of the financial sustainability and resilience of a local authority.
- 3.3 The inquiry is also likely to explore how local authority financial reporting could be made more accessible, the role of local audits in acting as 'red flag' for action by councils to address financial issues, and how auditors in local government could work together to share best practice.
- 3.4 Many local authorities are struggling financially with some councils in recent months even warning that they could be forced to declare effective bankruptcy within the coming year. When council finances are under greater pressure than ever before, the need for effective financial accountability for local government is put into even sharper focus.

- 3.5 Effective financial reporting at the local council level is important not only for delivering value for money for these services but is also key to democratic accountability. The Committee is keen for the inquiry to examine how local authority financial reporting could be improved to better engage with taxpayers and other stakeholders. It wants to explore how local audit fits into the ‘checks and balances’ of how councils operate and the effectiveness of audit in acting as a ‘red flag’ to councils to address financial issues.”
- 3.6 The DLUHC Committee’s inquiry comes in the wake of a recent declaration by Woking Borough Council that it was “in the territory” of being unable to meet its financial obligations and at risk of issuing a section 114 notice which would force central government to intervene. The Committee’s inquiry also follows the news of Thurrock Council issuing a section 114 notice in December 2022, and other recent failures at Northamptonshire County Council, Croydon London Borough Council, and Slough Borough Council.
- 3.7 The Committee welcomes written evidence on the terms of reference outlined below. The closing date for submissions is Monday 17 April.
- 3.7.1 Users and uses of local authority accounts and audit:
- What is the purpose of local authority accounts?
 - What role do they play in local accountability and democracy?
 - Building on that answer, what is the purpose of local audit?
 - Does it ensure compliance with requirements, assure the credibility of the accounts, assess the local authorities themselves through value for money work, etc.?
 - Who currently uses local authority accounts?
 - What do they use the accounts for?
 - Who should be using local authority accounts?
 - If these groups of users aren’t the same, why not?
 - What information do citizens need in order to hold their local authorities to account?
 - Is this information available in the local authority accounts as they stand?
- 3.7.2 Understandability and accessibility of local authority accounts and audit:
- Do the accounts provide a clear picture of the financial sustainability and resilience of a local authority?
 - How well do users understand the financial position and performance of a local authority from its accounts?
 - Do the accounts provide a clear picture of the level of reserves within a local authority, and how these might be used?
 - How easy do users find it to locate key information they are looking for in accounts?
 - Electors have a statutory right to inspect and object to pre-audited accounts. How widespread is this, and how does the current format of local accounts affect it?
 - How well do users understand published audit findings and reports?
 - Are some outputs more understandable and accessible than others?
- 3.7.3 Making local authority accounts meet the needs of users better:
- Are local accounting requirements proportionate?

- Are the bespoke reporting requirements for local government accounts (as opposed to central government accounts or non-government accounts) beneficial?
- Do local authority finance teams have sufficient expertise and capacity?
- Could changes be made to local authority accounts that would both simplify their production and improve understandability for users?
- How could local authority annual report and accounts be more accessible?
- What is the role of the new local audit system leader in improving local authority accounts?

3.7.4 Addressing findings in audits and sharing best practice:

- To what extent can local authority audits identify issues prior to the most significant difficulties being known?
- Is there a sufficient advance warning mechanism when issues are identified to ensure action is taken?
- To what extent is there a framework for auditors in local government to work together and to share best practice? Should such a framework be formalised?
- To what extent has a recent absence of multi-year funding settlements hindered budgeting and forecasting?

3.8 Responses are asked to address the reasons for choosing the option that they are recommending, and to make sure it is clear what the Committee needs or wants to get out of doing whatever is being proposed. Responses are limited to 3,000 words.

4 Next steps

4.1 The Chairman of the Audit Committee will provide a written response to the DLUHC enquiry.

5 Outcome of consultations

5.1 The Monitoring Officer and the Head of Finance and Performance were consulted to ensure legal and financial probity.

6 Other courses of action considered but rejected

6.1 Not providing evidence to the enquiry was considered, but it was felt that providing our example of the Council's recent experience of tendering and being unable to source an external auditor might be beneficial to the committee's understanding of the issues during the inquiry.

7 Resource consequences

7.1 There are no financial or officer resource consequences as the Chairman of the Audit Committee will be providing the response to the inquiry.

8 Legal Considerations and implications

8.1 There are no legal implications for the proposals in the report. Any response to the inquiry led by DLUHC is voluntary.

9 Risk assessment

9.1 There are no risks associated from the action.

10 Procurement implications

10.1 There are no procurement implications.

11. Equalities and Human Rights implications / Public Sector Equality Duty

11.1 Providing feedback to the DLUHC inquiry does not have any implications on equalities and human rights, or public sector equality duty.

12 Environmental implications

12.1 There are no environmental implications.

13 Other considerations

13.1 There are no GDPR or Data Protection or crime and disorder implications.