



CORPORATE GOVERNANCE COMMITTEE – 22 SEPTEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON AUDIT DELAYS AND PSAA CONSULTATION ON 2023/24 AUDIT FEES

Purpose of Report

1. The purpose of this report is to provide the Committee with an update on the actions the Government and other key partners are taking to address national issues with the backlog of local government audit opinions, and the Public Sector Auditor Appointments (PSAA) consultation on audit fees for 2023/24.

Background

2. Grant Thornton UK LLP are the External Auditor for the County Council and its Pension Fund. They have been the Council's auditor since 2018/19 and have recently been appointed for a further 5 years, to audit the accounts to 2027/28. These appointments were made under the PSAA's contracting arrangements which the Council has opted into.
3. There are challenges nationally in the current audit market which have contributed to delays in the completion of many local authority audits, alongside significant increases in audit regulation. The Redmond Review reported how local government audit is an unattractive market for audit firms and individual auditors to operate within. The market for this service is very limited.
4. In March 2023 the Council's external auditor reported on the significant capacity issues in the audit market. This comes from a combination of staff recruitment and retention difficulties combined with enhanced audit regulations which have increased the volume of work required to be undertaken as part of the annual audit. While the Council has not, so far, been significantly affected by such delays, the audit partner, Mr Stocks, provided assurance that Grant Thornton would continue to work to stabilise its audit team and adjust to the increased audit work required, but said that delays might continue for some time until the market could recover.
5. The Council's 2021/22 statement of accounts was signed by the external auditor in March 2023. While this was after the statutory completion date for the audit of the end of November 2022, this was expected. The delay was due to a national issue around the accounting treatment of Infrastructure Assets which required new legislation to be issued at the end of December 2022. This compares favourably with many other local authorities who did not have their audits completed by that date.

National Position

6. There has been a deterioration in the timeliness of local audit since 2017/18, with delays compounded by the Covid-19 pandemic which led to a significant backlog of audit opinions.
7. By July 2023, only 27% of local audits had been completed for the financial year 2021/22. The combined total of outstanding audits dating back to 2015/16 totalled nearly 520.
8. In July 2023 the Department for Levelling Up Housing and Communities (DLUHC) issued a letter and accompanying statement to Local Authority Chief Executives, Local Authority Leaders and Chief Financial Officers in England, and Local Audit Firm Partners to provide an update on work to address the backlog of audit opinions and embed timely audits. These are attached to this report marked as Appendices A and B. The key updates were:

Context

9. The extent and number of delayed audit opinions is unacceptable and that collective action to resolve the backlog is now required. DLUHC has already implemented a wide range of measures to improve the timeliness of audits in response to Sir Tony Redmond's independent review of local financial reporting and audit. They now recognise that previous solutions have not been sufficient, and fuller action is required. Urgent cross system work has been undertaken over the Spring with the Financial Reporting Council (FRC), auditors, Section 151 Officers, regulators, government departments and other key stakeholders, to find a solution to reset the system. We await to see the outcome out of this work.

Proposals – short term

10. Working with the National Audit Office (NAO), DLUHC intends to set a series of statutory deadlines for account preparers and auditors to clear the backlog. Proposed dates:
 - 2015/16 to 2019/20 accounts, backstop date 31 March 23
 - 2020/21 to 2021/22 accounts, backstop date 31 March 24
 - 2022/23 accounts, backstop date 30 September 24
 - 2023/24 accounts, backstop date 31 March 25
11. Auditors will need to report by these statutory dates even if that means limiting their opinions. However, they must make it clear to users where the limitations are as a result of the auditor being unable to provide assurance. It is accepted that this may result in qualifications and disclaimers of opinion in the short term for a number of local bodies but that this is necessary to reset the system.
12. Auditors' statutory duty to report on value for money (VfM) arrangements and their statutory audit powers (such as the power to make statutory recommendations or produce Public Interest Reports where necessary) will remain a high priority.

Proposals – longer term

13. DLUHC have emphasised that a repeat of the backlog in the future must be avoided and that local audit systems must be sustainable, and it ensured that proportionate financial reporting requirements, auditing requirements and regulatory requirements are in place.
14. A review to assess the level of work required for the current reporting and disclosures on account preparers, and external audit, is proportionate to their value to the user of the accounts will be considered. In this respect, the NAO are considering changes to the Code of Audit Practice for certain balances in the accounts to prevent audit delays; and CIPFA are also exploring potential changes to the Code of Practice for Local Authority Accounts for non-investment assets (includes fixed asset valuations), and pension valuations.
15. The FRC has committed to set out annually its planned regulatory programme, including how it will review auditors' work on operational assets and pension valuations. They are also reviewing whether changes to the level of audit materiality may be beneficial.
16. DLUHC will publish a list of local bodies and audit firms which meet the statutory deadlines and those which do not.
17. Other underlying challenges will also continue to be addressed. The FRC is already leading work across the system to improve competition, capability and supply within the audit market. The FRC, supported by DLUHC, is committed to producing a workforce strategy by the end of 2023, which will identify gaps and barriers across the local audit system that are hindering the development of future capacity and to agree actions and solutions to unblock these with stakeholders.
18. The Government is working with key partners across the system of local audit over the Summer 2023 to further develop these proposals. This has included briefing sessions with local authorities attended by officers of the County Council.
19. Further consultations are expected, with the Government anticipating that changes to the relevant codes and standards will be made in time for implementation at the end of December 2023.

Local Position

20. The County Council has not been significantly affected by the wider external audit delays. The Council's latest set of audited accounts for the financial year 2021/22 were approved by the external auditor as planned in March 2023.
21. The audit of the accounts for 2022/23 is planned to be completed by the end of the calendar year 2023. This is later than the statutory deadline of 30 September, although it should be noted that the deadline has been brought forward this year (reverting to pre-Covid-19 dates) from the 30 November. The planned audit completion by the end of 2023 was discussed and agreed with the auditor earlier in the year due to the knock-on effect of the completion of the 2021/22 audit.

22. Through regular meetings with the external auditor, officers are kept up to date on audit progress. No delays have been raised with the end of 2023 planned reporting date at the current time.

PSAA Consultation on the 2023/24 Audit Scale Fee

23. The PSAA have recently issued their consultation on the proposed scale audit fees for the financial year 2023/24. The consultation closes on 10 October 2023 and officers are currently drafting a response, which will include the following key points:
- Concern at the proposed 151% increase in scale fees in the face of the Council's MTFS gaps. The Council recognises that the current local audit system is broken, partly due to the increased regulatory requirements and supply issues in the audit market and will call on the Government to provide further funding to mitigate the impact of any fee increases on local government.
 - The consultation proposes that fees for recurrent additional audit work or adjustments for local circumstances should be included in the scale fees. The Council's view is that these should be separately itemised and agreed only after discussion with the external auditor.
 - Finally, the consultation is unclear about the potential impact on fees of proposals to address the audit backlog. The Council is clear that any measures introduced by DHLUHC should not increase the audit fees paid by local government.
24. The 2023/24 audits are the first in the second five-year appointing period. PSAA awarded new contracts for this appointing period in 2022 to six audit firms, following a "challenging and protracted procurement". The procurement exercise demonstrated the limited audit capacity available to meet the demands of the local audit market resulting in a significant increase in price – an increase of around 151% of previous audits.

Summary

25. The Government, and key partners across the local audit system, are undertaking a series of actions during 2023 to address the national delays and backlogs in local authority audits. This includes introducing statutory completion dates for audits, acceptance of disclaimer audit opinions, a review of the proportionality of certain balances and disclosures in the accounts, and work to improve competition, capability and supply in the audit market. The Government anticipates the changes to be in place by the end of December 2023.
26. The PSAA consultation proposes increases of 151% to the audit fee scale for 2023/24. The consultation closes on 10 October 2023.

Recommendation

27. The Committee is asked to note the update provided in the report and comment on the Council's proposed response to the PSAA consultation on the audit fee scale for 2023/24.

Equality Implications

28. None.

Human Rights Implications

29. None

Circulation Under the Local Issues Alert Procedure

30. None.

Background Papers

Corporate Governance Committee 16 March 2023 – external audit of the 2021/22 Statement of Accounts

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=7314&Ver=4>

Corporate Governance Committee 21 November 2022 – update on the external audit of the 2021/22 Statement of Accounts (and auditor appointment)

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6846&Ver=4>

Corporate Governance Committee 5 November 2021 – appointment of external auditor

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6495&Ver=4>

Appendices

Appendix A – Letter from DHLUC on local authority audit delays

Appendix B – Statement from DHLUC on local authority audit delays, cross system statement on proposals

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