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Committee of Public Accounts

Timeliness of local auditor reporting

Sixtieth Report of Session 2022–23

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to the report*

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The Committee of Public Accounts

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Summary

The system of local government audit is close to breaking point. Since we last reported in July 2021, performance has deteriorated further. Just 12% of local audit opinions were received in time for the already extended deadline for publishing the 2021–22 accounts for local government bodies. By the end of November 2022 over 630 accounts, some dating as far back as 2015–16, had yet to be signed off by auditors. The timeliness of local auditor reporting is crucial for making decisions about budgets for local government bodies in England. But, worryingly, the Department for Levelling Up, Housing & Communities (the Department) cannot say yet whether this will get worse, or how and when it will improve.

The broader causes of the delays are well-known and not new, so it is disappointing that despite repeated warnings there has been so little progress. Many of the issues have been years in the making and yet the consequences of late audits are not treated as seriously as they should be by the Department.

The Department and the Financial Reporting Council (FRC) do not yet have the detailed understanding they claim they need in order to address the issues prevalent in the system. While the Department has made some interventions intended to help improve timeliness, these sticking plaster approaches have so far had little effect in a system which has no incentives, levers, or sanctions for those who fail to deliver on time. It is essential that the Department and FRC tackle the long-standing challenges in securing sufficient capacity and capability among the local authority finance staff who prepare accounts, and the local audit providers who audit them. Yet the number of key audit partners across the provider market is worryingly low, and it remains to be seen whether the Department's new qualification for auditors, and the FRC's workforce strategy, will provide a much-needed long-term solution.

Delays to local audit reduce transparency over approximately £100 billion of local government spending for local taxpayers and their elected representatives, and impact on other areas of government spending, such as the NHS and central government. Delays also increases the risk of significant issues going un-detected and un-reported until too late. There is a pressing need for leadership within local public audit, and for the Audit, Reporting and Governance Authority (ARGA), government's preferred choice as system leader, to be established. We stressed this point in our July 2021 report on the subject, yet there are still few signs of it happening, and no guarantee that the necessary legislation will be in place during this Parliament. In the meantime, 'shadow' arrangements with the FRC taking on responsibility to lead local audit have not yet formally started, meaning that for now the system remains fragmented and deep-rooted local audit challenges remain unaddressed.

Introduction

Local authorities in England spend around £100 billion each year, delivering many of the services which local taxpayers rely on every day. Following the abolition of the Audit Commission in 2015, financial accounts for the 475 local authorities, police and fire bodies in England are now audited by private firms. Multiple organisations play a part in this system including: the Department for Levelling-Up, Housing and Communities (the Department), which provides legislative oversight of local authority finance and reporting; the Local Authority Code Board, which issues guidance on the required content of local authorities' accounts; Public Sector Audit Appointments Ltd (PSAA), which appoints private sector auditors to local government bodies that have opted into its central procurement scheme; the Comptroller and Auditor General (C&AG) who issues the Code of Audit Practice and guidance; and the Financial Reporting Council (FRC) which regulates the quality of audits provided to major local authorities.

The local audit landscape is set to change again following a government commissioned independent review of the oversight of local audit and the transparency of financial reporting in 2020 (the Redmond Review). In response to the Redmond Review, the Department chose the Audit, Reporting and Governance Authority (ARGA) as the new leader for the local audit system, replacing the FRC. ARGA is due to be established by the Department for Business and Trade, though it will not replace the FRC until 2024 at the earliest. ARGA will assume responsibility for the Code of Audit Practice and guidance, though PSAA will retain its role in appointing auditors to local bodies. The FRC is due to provide a 'shadow' system leadership role from spring 2023 until ARGA takes up its full role. In the meantime, the Department has been the formal system leader and ultimately responsible for the oversight of local audit.

Conclusions and recommendations

1. **The backlog of audit opinions for local government bodies remains unacceptably high, and the Department still does not have a plan to reduce it.** Only 12% of local government bodies received their audit opinions in time to publish accounts for 2021–22 within the already extended local authority accounts publication deadline. Over 400 local government bodies missed this deadline for publishing their 2021–22 accounts, meaning the cumulative backlog of unpublished opinions rose to 632. The Department and FRC are unable to say when the backlog will be addressed, but the scale of the increasing backlog suggests that the position for 2022–23 may get worse before it gets better. The Department wrote to local government and local audit providers in March 2023 to urge joint action on tackling barriers to timely delivery but could not provide us with clear expectations in terms of dates by which performance will have improved. We have asked for such a timetable twice before. The Department is confident that its recent actions will unblock some of the backlog, while the contractual obligations of audit providers will ensure remaining audits are delivered. However, the Department’s anticipated return to a May 2023 deadline for the production of 2022–23 draft accounts by local authorities could be a step too far for both local government finance teams and their auditors, and risks worsening the backlog.

Recommendation 1: *The Department should, as part of its Treasury Minute response, update the Committee on:*

- *What actions it and FRC are taking to increase the proportion of audit opinions for local government bodies that are delivered by the publication deadline for 2022–23;*
 - *What actions it and FRC are taking to clear the backlog of audits from 2021–22 and earlier, and in what timeframe they expect it to clear; and*
 - *What metrics and milestones it and FRC will use to measure progress in improving timeliness of local audit and hold stakeholders to account.*
2. **Delays to the publication of audited accounts for local government bodies increases the risk of governance or financial issues being identified too late and hinders accountability for £100 billion of local government spending.** There are ways in which auditors can sound the alarm on risks before their audits are completed, such as issuing a Public Interest Report as was issued in October 2020 for the London Borough of Croydon. However, the risk of significant financial or governance issues being detected too late certainly increases significantly where audits are delayed. With the same pool of auditors working across other sectors, including the NHS, the delays in local audit also risk spreading to other areas of public spending. Some central government departments and their arms-length bodies are continuing to experience knock-on impacts on accountability; for example, when there are delays to the assurances local auditors give on Local Government Pension Scheme accounts and figures supporting Whole of Government Accounts (WGA). As a result, the Department is open to exploring options that allow these central government audits to be concluded without relying on local auditor assurances. The FRC has committed to look at the wider local audit system to make sure actions to address the timeliness of auditing in one area do not affect another.

Recommendation 2: *The Department should, as part of its Treasury Minute response, explain what it is doing across the local audit sector to mitigate the impact of delays to the audited accounts of local government bodies on:*

- *Accountability for public money spent by these organisations;*
 - *The accounts and audit of central government departments; and*
 - *Significant local audit issues being identified or reported late in the day.*
3. **Long-term market and workforce development are essential if the Department is to resolve the current problems with local auditor reporting and create a more resilient system for the future.** Much of the focus to date has been around short-term fixes intended to reduce pressure on the local audit system, such as changes to deadlines, deferrals to new financial reporting requirements and temporary changes to audit guidance. Longer-term progress will depend on effective market and workforce development. While PSAA's recent procurement process secured the audit capability required to deliver local government audits for the period covering 2023–24 to 2027–28, it fell short initially and needed a supplementary bidding round. There are still too few key audit partners and other experienced staff working in the local audit market. The Department's plans for a new qualification to support experienced audit staff to move from other sectors into the local audit sector are welcome, but we are not convinced that it will provide the numbers of skilled staff needed or quickly enough. The FRC is beginning work on a workforce plan and will be looking at routes into local audit starting with championing public sector audit among university and college leavers. The Department meanwhile is confident the new PSAA contracts should offer the certainty and commercial terms needed to enable providers to invest in staff development. It will be critical that the workforce plan also considers the development of local authority finance staff, who are crucial to the production of accounts on time.

Recommendation 3: *The Department should, alongside its Treasury Minute response, write to us to set out how it and FRC will ensure the market and workforce for local audit develops as needed to address existing issues, and the metrics and milestones that they will use to measure progress and hold stakeholders to account.*

4. **Delays to establishing the Audit, Reporting and Governance Authority (ARGA) and handing over responsibilities for leading local audit to the FRC, risk performance deteriorating further.** The Department rejected the Redmond Review's proposal to create an Office of Local Audit and Regulation to oversee local audit, partly due to the time it would take for a new body to establish itself. It instead opted to establish ARGA to replace the FRC and oversee and regulate the local audit sector. Despite the pressing need for leadership within local public audit and recognition of the importance to set up ARGA as soon as possible, ARGA will not be set up until 2024 at the earliest. Neither FRC nor the Department could confirm whether the legislation required to establish ARGA would be introduced in the current Parliament. While the Department and FRC have agreed what roles and responsibilities the FRC will take on as part of its shadow system leadership role until ARGA is formally in place, these arrangements are yet to be formally

handed over. We welcome the National Audit Office's offer to reissue the 2020 Code of Audit Practice to provide some continuity and certainty over local auditors' responsibilities in the meantime.

Recommendation 4: *The Department should, as part of its Treasury Minute response, set out its contingency plans should the legislative programme not allow for ARGA's establishment during this Parliament.*

5. **There are no consequences for local government bodies or local auditors failing to deliver audited accounts on time.** Audit contracts cannot specify the delivery of opinions by a certain date. The FRC and the Department say that they want to develop a deeper understanding of the issues affecting timeliness before considering possible sanctions as there is no shared view on where responsibility for delays lies. But the problems with the timeliness of local auditor reporting are not new. The FRC's new responsibilities for leading local audit present an opportunity to develop a better response to issues across the local audit system. Yet the FRC will need to: ensure that the local audit system works compatibly with the timing and content required for other central government accounts and the WGA; manage the tension between its own local audit and quality monitoring roles; and clarify accountabilities, recognising that at present the only consequences in the local audit system are borne by the audit firms and relate to poor audit quality rather than late delivery.

Recommendation 5: *The Department should write to us by October 2023 setting out how it will address the lack of incentives or sanctions around timeliness of auditor reporting, based on its more detailed review of the causes of delays and where lessons can be learned.*

6. **Government, local bodies and standard setters still lack a shared view of how to ensure that local public accounts, and the audit of them, are fit for purpose.** Local government accounts have become increasingly complex. They have to meet financial reporting standards while also reflecting how local government finance works, a challenge that increases with the more complex activities that authorities undertake. Local government accounts are too often inaccessible to most users and few in the sector think they work as well as they ought. Some temporary simplifications have been made to financial reporting requirements to help reduce the burdens for preparers and auditors. But both producers and auditors of accounts consider many areas of accounting and auditing requirements as overly complex and resource intensive; particularly around valuations of operational assets such as roads and coastal defences which cannot readily be sold, and valuations of pension assets and liabilities. In these instances, some accounting practitioners and auditors believe more often than not the numbers in the accounts have little to no impact on day-to-day decision making.

Recommendation 6: *The Department should set out as a matter of urgency, alongside its Treasury Minute response if not before, how it will work with HM Treasury, the FRC and others to agree permanent and proportionate measures to address the most complex parts of local bodies' accounts and the subsequent audit of them.*

1 The audit backlog and its impact

Introduction

1. On the basis of a report by the Comptroller and Auditor General (C&AG) we took evidence from the Department for Levelling Up, Housing and Communities (the Department), the Financial Reporting Council (FRC), and Public Sector Audit Appointments Ltd (PSAA) about progress government has made improving the timeliness of audit opinions issued on local government bodies in England.¹ We also received written evidence from a number of individuals and organisations.

2. Following the abolition of the Audit Commission in 2015, financial accounts for local government bodies, such as councils, police and fire bodies are now audited by private firms.² Within the UK this model is unique to England, with other models in place in Scotland, Wales and Northern Ireland.³ Multiple organisations play a part in the system in England including the Department, which provides legislative oversight of local authority finance and reporting; the Local Authority Code Board, which issues guidance on the required content of local authorities' accounts; PSAA, which appoints private sector auditors to local government bodies that have opted into its central procurement scheme; the C&AG who issues the Code of Audit Practice and guidance; and the FRC which regulates the quality of audits provided to major local authorities.⁴

3. Our report on this issue in July 2021 highlighted a deterioration in the timeliness of local authority audits. We reported that only 45% of local authorities published audited 2019–20 accounts by the statutory deadline, itself extended due to the impact of the COVID-19 pandemic. This continued a trend of decline from 87% for 2017–18 and 57% for 2018–19.⁵ Later in 2021 the Department informed us that performance for 2020–21 audits fell further to a shocking 9%.⁶ In February 2022 we reported that the Department had not acted with sufficient urgency to address the severe and pressing problems in the audit market and recommended that it produce a detailed timetable and plan for getting local audit timeliness back on track.⁷

4. The local audit landscape is set to change again, with the establishment of a new system leader. The Department accepted the recommendation of the 2020 Redmond Review to establish a new system leader for local audit, but selected the Audit Reporting and Governance Authority (ARGA) rather than follow the Review's suggestion of a dedicated body for local audit.⁸ ARGA is being established by the Department for Business and Trade to replace the FRC, although it is now not expected to be established until 2024 at the earliest.⁹ ARGA will bring together FRC's responsibilities for regulating audit

1 C&AG's Report, [Progress Update: Timeliness of local auditor reporting on local government in England, Session 2022–23](#), HC 1026, 25 January 2023

2 C&AG's Report, para 2

3 Q 61

4 C&AG's Report, para 1.2 and Figure 2

5 Committee of Public Accounts, [Timeliness of local auditor reporting on local government in England](#), Eleventh Report of Session 2021–22, HC 171, 14 July 2021, para 4

6 C&AG's Report, para 2.7

7 Committee of Public Accounts, [Local government finance system: overview and challenges](#), Thirty-fourth Report of Session 2021–22, HC 646, 2 February 2022

8 C&AG's Report, Figure 1

9 Q 84; C&AG's Report, Para 1.3

quality in the sector alongside assuming responsibility for the Code of Audit Practice and guidance. PSAA will retain its role appointing auditors to local bodies. The FRC is due to provide a ‘shadow’ system leadership role from spring 2023 until ARGAs take up its full role. The Department remains the interim system leader in the meantime.¹⁰

Local audit system performance

5. Only 12% of audit opinions on local government accounts for 2021–22 were issued in time for the accounts to be published by the statutory deadline. This compares to 9% for the previous year, although the Department further extended the deadline for 2021–22 by two months to 30 November 2022.¹¹ This disappointing performance comes despite the Department and others having taken further measures to try and get timeliness back on track in the near-term. These measures have included the NAO granting temporary flexibilities on the timing of auditors’ work on value for money arrangements so that they could focus on financial statement opinions, HM Treasury raising the financial threshold for authorities to provide audited Whole of Government Accounts (WGA) returns, and the Department delaying the introduction of new standardised statements intended to improve transparency of local government reporting.¹² By November 2022 a backlog of 632 audit opinions had built up across the local bodies opted in to PSAA’s national procurement scheme. Over 400 local government bodies missed the publication deadline for 2021–22 (88% of the 475 local government bodies to which PSAA appoint auditors missed the deadline). Meanwhile, 168 audit opinions from the previous year (35%) remained outstanding 12 months on from the prior year deadline. There are currently unaudited local government accounts going as far back as 2015–16.¹³

6. We asked the Department when it expected this performance to improve. The Department would not predict the percentage of audited accounts it expects to see published by the deadline for 2022–23, but said that it would be disappointed if numbers remained as low as in previous years.¹⁴ When we pressed the Department for a timetable it insisted this was not possible, as the causes of individual delays are varied, depending on both the ability of the local authority to produce the quality documentation required and the capacity of the auditors to process it.¹⁵ The FRC told us it intends to do more analysis to build its understanding of the underlying nature of these delays.¹⁶ The Department also said it had written to local government bodies and auditors in March 2023 to highlight their responsibilities for working collectively to address the causes of delays.¹⁷

7. We asked the Department why it was confident that performance on audit timeliness would improve and what signs of improvement it would be looking for. The Department described its particular focus on valuation issues which it told us has been of increasing concern to auditors and councils. In December 2022 it amended accounting regulations to allow short-term flexibility around the valuation of infrastructure assets (for example, roads, street lighting and flood or coastal defences), and expects to see this used to

10 C&AG’s Report, Para 1.3, Figure 2

11 C&AG’s Report, Paras 2.5 and 2.8

12 C&AG’s Report, Para 2.15

13 C&AG’s Report, Para 2.9

14 Qq 2, 3

15 Q 18

16 Qq 16, 41

17 Q 11

unblock delays in lots of cases.¹⁸ The Department later expressed its confidence that the contractual obligations of audit providers remain a key incentive in ensuring outstanding audits would be delivered, although the Society of County Treasurers cautions that its members are already reporting reducing levels of engagement from auditors who are leaving the market.¹⁹

8. We challenged the Department on whether its plans to bring the accounts publication deadline forward for 2022–23 would present a risk to progress. The Department told us it would keep this under review.²⁰ However, local audit providers and local authorities shared with us their concerns that the anticipated return to a May deadline for the production of draft accounts, despite auditors being clear they are unlikely to be ready to start work at that point, will create increased pressure on authorities.²¹ Ominously the FRC highlighted wider system risks of auditors having to clear local audit backlogs at the same time as delivering their NHS audit work, making it ‘far from certain’ that audit timeliness would be back on track within a reasonable period.²²

Impacts of local audit delays

9. The audit process provides a key element of assurance for financial planning, budgeting and management in local government bodies and accountability for £100 billion of spend, but this only works effectively when audit work is timely. We pressed the Department on the danger that late audits pose to highlighting risks in local authorities. The Department agreed these risks were real but highlighted other ways for auditors to sound the alarm sooner where the accounts are not closed.²³ Examples include making a statutory recommendation to the audited body requiring a public response or issuing a Public Interest Report, as was the case at the London Borough of Croydon in October 2020.²⁴

10. Local government audit delays are also creating problems in other parts of government. For example, delays to the completion of 2020–21 local audits are adding to uncertainty around progress with the Whole of Government Accounts, which will be published more than 24 months after the financial year end.²⁵ We note the Department’s and HM Treasury’s action to raise the financial threshold above which authorities are required to provide audited WGA returns.²⁶ We have also seen delays to assurance on Local Government Pension Scheme accounts contribute to delays of four to five months on certifying central government department accounts, including the Ministry of Justice and the Department for Digital, Culture, Media & Sport.²⁷ The Department told us it was keen to explore options available to close the audit of central government accounts sooner where the issue holding up finalisation is the absence of local auditor assurances on the pension valuations feeding into them. The C&AG agreed that a limited audit opinion

18 Qq 8, 11, 16 ; C&AG’s Report, Para 3.20

19 Q 22; [TAR0008](#) p.2

20 Q 69

21 [TAR0014](#) para 7.3, [TAR0008](#), p.2

22 Q 40

23 Q 65

24 Qq 19, 20

25 Committee of Public Accounts, [Whole of Government Accounts 2019–20](#), Twentieth Report of Session 2022–23, HC 31, October 2022

26 C&AG’s Report, para 2.15

27 C&AG’s Report, para 2.11

could help avoid unnecessary delays and we said we would not be concerned with such accounts qualifications if they were agreed in conjunction with the NAO and remained exceptional rather than routine.²⁸

11. We also asked the FRC about the risks local audit delays cause to NHS accounts. The FRC emphasised the challenges the health sector faces due to structural changes in the last year.²⁹ This will be reflected in the NHS requiring audits of the three months Clinical Commissioning Groups were in place up to June 2022, and of the nine months of the Integrated Care Boards that replaced them for the rest of 2022–23.³⁰ The FRC emphasised the interdependencies where the same pool of auditors works across both the health and local government sectors, a coordination risk also highlighted by local audit providers themselves.³¹ The FRC told us it plans to undertake a wider review of the local audit system, including the NHS, as an immediate priority.³² It argued that a more granular understanding will enable it to assess the best course of action to address issues affecting timeliness, without having a detrimental effect on other sectors.³³

Incentives for timely audit

12. The Department described the local audit system to us as having no ‘single version of the truth’ for what is holding up individual audits, in some cases issues being with the authority preparing the accounts and in other cases the problem being with auditors.³⁴ Auditors and local authorities both report the pressures of regulation being a contributing factor to delays. The FRC used its sanction powers for the first time in 2022, issuing a fine of £250,000 for quality failings it identified in one local audit.³⁵ Grant Thornton told us that while the FRC’s focus has improved the quality of both financial reporting and local audit, firms will defer audit reports where work cannot be completed to the FRC’s standards by expected target dates. They describe firms increasingly exercising caution when dealing with complex audit issues, particularly around asset valuations.³⁶

13. The Society of London Treasurers told us there also needed to be consequences for late sign-off of accounts, suggesting auditors should report on the causes of delay to audit committees. The Society also queried whether better contract management might help the delivery of audits, suggesting a simpler procurement process might better enable management of auditors locally rather than by PSAA.³⁷ We asked PSAA about the contractual obligations of audit providers and they confirmed that its audit contracts cannot specify that auditors issue their opinions by a certain date. PSAA emphasised that this was deliberate to preserve auditor independence, though accepted this causes a challenge for the system.³⁸

14. Compared to the level of scrutiny over the quality of their audits, local audit providers highlighted a contrasting lack of oversight or sanction over the quality and timeliness of

28 Qq 97–99

29 Q 40

30 [TAR0011](#)

31 Q 40, [TAR0014](#)

32 Q 16

33 Qq 41, 52

34 Qq 11, 18

35 C&AG’s Report, para 1.7

36 [TAR0001](#)

37 [TAR0013](#)

38 Qq 72, 74

draft account production by local authorities.³⁹ As the local authority is at the beginning of the audit chain, this has knock-on effects on auditors. When we challenged the Department on this, it accepted there was ‘no specific sanction’ for missing the statutory deadline but emphasised that local authorities remain accountable for delivery and that it had written to authorities in March 2023 to underline their responsibilities.⁴⁰ The Department described the situation to us as ‘a system properly under strain from both sides’.⁴¹

15. The Department told us that, while Scotland was a very different market to that operating in England, its information was that there are not the same timing issues as it was facing in the English context. When we asked whether the Department had explored whether there were potential lessons or solutions from parts of the United Kingdom less affected by delays, the Department told us there were no plans to move back to the approach currently operating in Scotland.⁴²

39 [TAR0012, TAR0017](#)

40 Q 66

41 Q 69

42 Qq 60–61

2 Long-term reform

Market and workforce development

16. We recommended in 2021 that the Department ensured PSAA's procurement exercise for the next round of audit contracts covering 2023–24 to 2027–28 financial years bring fees into line with the costs of work and be appropriately funded. The procurement completed in October 2022, and the Department told us that the new contracts made involvement in local audit 'much more financially viable' than it had previously been.⁴³ PSAA's procurement strategy for the next round prioritised quality over price, and on announcing the outcome of the process told local government to expect fee increases of 150% in the first year of the new contracts.⁴⁴ Local audit provider Grant Thornton described the more sustainable fee levels as a cause for optimism, while Ernst and Young saw it as a 'starting point' for additional recruitment and specialist training.⁴⁵

17. When we asked PSAA about its confidence in the future of the market, it cautioned that the procurement had been very tough, having only secured 90% of the capacity PSAA needed in the initial round. PSAA described this outcome as 'not ideal' as it was not able to make a choice from the offers received and had to return to the market to ask for more.⁴⁶ Following this supplementary process PSAA secured 99.5% of the capacity tendered, a level it judged sufficient following recent local government reorganisations.⁴⁷ Only seven firms took part in the procurement, of which six won contracts.⁴⁸ Two previous providers left the market, one large provider returned along with two new market entrants.⁴⁹ Deloitte, one of the firms who left the market, told us it chose not to participate in the procurement. Its reasons included the terms of the contract prohibiting an auditor's ability to resign – a power they have in other markets; regulatory imbalances around the quality expectations on the local authorities producing accounts and the firms auditing them; and challenges attracting, developing and retaining the staff required to perform local audit work.⁵⁰ PSAA warned that without changes to the market, the next five-year procurement will be equally difficult.⁵¹

18. There are less than 100 key audit partners registered to perform local audits.⁵² We asked PSAA whether it felt there were enough audit partners in the market. PSAA described the number of key audit partners on the register as 'worryingly low'.⁵³ Audit providers themselves continue to warn of a 'constrained and ageing pool of talent' and we have reported before that most key audit partners are over 50 years old.⁵⁴ PSAA also

43 Q 22

44 C&AG's Report, Paras 3.3, 3.4

45 [TAR0001](#) para 1, [TAR0012](#) para 4

46 Q 42

47 C&AG's Report, Para 3.8

48 [TAR0006](#) para 30; C&AG's Report, Figure 5

49 C&AG's Report, Para 3.8 and Figure 5

50 [TAR0017](#)

51 Q 43

52 C&AG's Report, para 3.10

53 Q 78

54 [TAR0012](#) para 4 ; [PAC 2021 Report](#), para 28

told us the market needed to build the resilience to manage the ‘inevitable’ movement of auditors between firms, avoiding risks like the recent case of Bournemouth, Christchurch and Poole where the departure of a single team member delayed the audit.⁵⁵

19. In 2021 we recommended the Department accelerate training to increase the supply of auditors quickly. The Department told us that it has worked with the Chartered Institute of Public Finance Accountancy (CIPFA) in developing a new qualification it now expects to launch in summer 2023.⁵⁶ The training aims to support senior audit staff with experience in other sectors to develop the knowledge needed to switch to local audit practice. The Department told us it sees the qualification as a stopgap to bring in extra capacity quickly while firms develop increasing numbers of local audit specialists for the longer term.⁵⁷ Similarly the Department also described work it had done to enable the recruitment of overseas auditors to fill gaps in the near term.⁵⁸ The Department conceded that the launch of the training had been delayed as it was taking time to get the design of it right.⁵⁹

20. We challenged the Department on whether the qualification would equip staff to make judgements that are quite different to those in private audits. The Department accepted that difficult judgements require experience and joint working with council leadership teams. We pressed the Department and the FRC on whether the new qualification would be sufficiently attractive to people working in private sector auditing. The FRC felt it would be attractive, while the Department also emphasised the changes the FRC had made to audit practitioner guidance intended to make it easier for people to switch to local audit.⁶⁰ PSAA told us it knew people in audit firms were waiting to use this qualification to get into the local audit market.⁶¹ Audit provider Mazars however described the challenges its own training programmes faced keeping pace with the loss of qualified staff to other roles.⁶²

21. The FRC is beginning work on a comprehensive workforce strategy. The FRC told us this will represent a long-term plan including routes into local audit starting with championing public sector audit among people at university and college. When we challenged the FRC on how long it might take for people to emerge as senior auditors the FRC conceded it was a long-term plan.⁶³ The Department is confident that the new audit contracts will offer firms the certainty to start planning their own pipelines to bring these new staff through the system.⁶⁴ We also received evidence highlighting the importance of workforce planning for local government finance staff. Local authority representative groups described concerns with the recruitment and retention of skilled finance staff.⁶⁵ Local audit providers also emphasised the need for a pipeline to develop future finance staff.⁶⁶ The FRC expects to publish its workforce strategy in autumn 2023.⁶⁷

55 Qq 80–81

56 C&AG’s Report, Paras 3.9, 3.10; Q17

57 Q 17

58 Q 24

59 Q 17

60 Qq 82–83

61 Q 42

62 [TAR0014](#)

63 Qq 82, 83

64 Q 27

65 [TAR0007](#), [TAR0008](#), [TAR0013](#)

66 [TAR0001](#)

67 Q 28

System leadership

22. In 2020 the Department rejected the Redmond Review’s proposal to create an Office of Local Audit and Regulation (OLAR) to oversee local audit, partly due to the time it would take for a new body to establish itself.⁶⁸ It chose instead to place system leadership with the Audit, Reporting and Governance Authority (ARGA), which was already being established as the replacement for the FRC. In our 2021 report we expressed concern that ARGA would not be set up until 2023. This date has since slipped to 2024 at the earliest.⁶⁹ We challenged the Department on whether getting the required legislation in place to establish ARGA was being prioritised, given the urgent challenges the sector faces. The Department responded that responsibility for the legislation was with the Department for Business and Trade (which replaced the Department for Business, Energy & Industrial Strategy in February 2023). The Department conceded that progress depends on government securing the legislative time in Parliament. When we expressed our concern that the involvement of an entirely new department added to risk of delay, the Department was confident that it would not.⁷⁰

23. The FRC said that from its point of view ‘ARGA cannot come in quickly enough.’ In March 2023 it agreed a memorandum of understanding with the Department setting out the ‘shadow’ system leadership responsibilities it will take on in the meantime. The FRC told us it saw this as a convening role, ‘co-ordinating what has been and still is to an extent a fragmented system.’⁷¹ It described its initial priorities as understanding the granularity of issues causing audit delays, addressing the backlog and taking forward work on a comprehensive workforce strategy.⁷² When we pressed on the risks it faces in this new role, the FRC highlighted the need to build capacity for the role, and manage the risks of operating as both system leader and regulator, where regulatory actions might have a detrimental effect on the local audit market.⁷³ The FRC also highlighted the risk that it is seen as being solely responsible for fixing problems in the system. It described the need for ‘a dedicated and concerted effort from absolutely everybody.’⁷⁴ We challenged the FRC on whether it would have the strength to influence Departments and other bodies when needed. The FRC’s director of local audit assured us that he would.⁷⁵ The Department clarified that these ‘shadow’ responsibilities have not yet been handed over, but a further process is underway to assure readiness, following which the Department will formally hand over responsibilities through a remit letter.⁷⁶ While the legislation to establish ARGA remains pending, the National Audit Office has offered to reissue the 2020 Code of Audit Practice to provide some certainty to the system over local auditors’ responsibilities through to 2027–28.⁷⁷

68 Department for Levelling Up, Housing and Communities, [Local authority financial reporting and external audit: government response to the independent review](#), December 2020 para 69

69 C&AG’s Report, paras 3.12 and 3.17

70 Qq 84–85

71 Qq 12–13

72 Q 16

73 Q 39

74 Qq 54–55

75 Q 57

76 Q 55

77 Q 87

Making local government accounts more accessible

24. We have previously expressed our concern that local government accounts have become impenetrable to many and that unless local authority accounts are useful, relevant and understandable they will not aid accountability.⁷⁸ CIPFA, one of the bodies responsible for setting the code of practice on local authority accounting, recognised in its evidence to us that local government accounts make it ‘difficult for council taxpayers and service users to understand how resources have been used.’⁷⁹ Local audit provider Grant Thornton highlighted the particular complexities caused by the adjustments or ‘statutory overrides’ government applies to local government accounts to protect council taxpayers from the potential impact of accounting entries which are required under international accounting standards, but which do not have immediate day-to-day implications for how authorities need to manage their funds.⁸⁰ Local auditor Mazars told us the number of these accounting adjustments continues to increase.⁸¹ CIPFA however told us the driver of complexity was the increasingly commercial nature of local government operations rather than the accounting standards themselves.⁸²

25. In 2021 we reported our particular concern that the complexity of valuation arrangements around property in particular generated levels of audit work disproportionate to the risks faced by authorities. Mazars described how these accounting values had limited importance to local authorities themselves, but highlighted the ‘consistent message’ from the FRC that auditors must nevertheless strengthen their work on challenging the valuation of property assets.⁸³ The Department said that it had put in place arrangements in December 2022 allowing auditors more flexibility around work on these valuations.⁸⁴ The Department also highlighted how CIPFA had deferred the implementation of a new accounting standard on the treatment of leases to support sector capacity in the short term, but it was bound by international accounting standards to introduce it at some point.⁸⁵

26. We asked whether the desirable pursuit of the best possible accounting standards was preventing accounts being understandable. The FRC recognised the issue, yet despite the consensus it described around the need to reset the purpose of local audit and financial reporting it also noted that any such reform would take a long time to implement.⁸⁶

27. CIPFA’s evidence to us highlights its view that no alternative accounting frameworks are without their disadvantages, and that departures from the existing regime may risk reducing consistency with the rest of the public sector and require adjustments to feed in to the Whole of Government Accounts.⁸⁷ The Department highlighted the difficulty CIPFA, HM Treasury and other bodies have had making collective progress on simplifying standards.⁸⁸

78 Public Accounts Committee, Eleventh Report of Session 2021–22, [Local auditor reporting on local government in England](#), HC 171, para 12

79 [TAR0015](#), para 1.3

80 [TAR0001](#)

81 [TAR0014](#)

82 [TAR0015](#)

83 [TAR0014](#) 4.2, 4.3

84 Qq 8–9

85 Qq 91–93

86 Q 91

87 [TAR0015](#), para 10.8

88 Q 35

28. We have previously stated our support for the Redmond Review's shorter-term proposal for local authorities to publish a standardised statement alongside their accounts to improve transparency to the public.⁸⁹ The Department told us that work was underway to develop simplified statements for publication alongside local government accounts, but in December 2021 the Department announced it would delay the implementation of these statements while pressures on audit timeliness remained so severe.⁹⁰

89 Public Accounts Committee, Eleventh Report of Session 2021–22, [Local auditor reporting on local government in England](#), HC 171, para 12

90 C&AG's Report, para 3.19

Formal minutes

Monday 12 June 2023

Members present:

Dame Meg Hillier

Olivia Blake

Sir Geoffrey Clifton-Brown

Mr Jonathan Djanogly

Mrs Flick Drummond

Mr Louie French

Peter Grant

Anne Marie Morris

Nick Smith

Declaration of interests

Peter Grant declared that he was a qualified member of the Chartered Institute of Public Finance and Accountancy in relation to the Committee's inquiry into Timeliness of local auditor reporting.

Sir Geoffrey Clifton-Brown declared that he was a Fellow of the Royal Institute of Chartered Surveyors in relation to the Committee's inquiry into Timeliness of local auditor reporting.

Olivia Blake declared that she was the daughter of Baroness Blake who is working for the Department on its Liverpool Advisory Panel in relation to the Committee's inquiry into Timeliness of local auditor reporting.

Timeliness of local auditor reporting

Draft Report (*Timeliness of local auditor reporting*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 28 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Sixtieth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Adjournment

Adjourned till Thursday 15 June at 9.30am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Thursday 16 March 2023

Jeremy Pocklington CB, former Permanent Secretary, Department for Levelling Up, Housing and Communities, and Permanent Secretary, Department for Energy Security and Net Zero; **Sarah Healey**, Permanent Secretary, DLUHC; Catherine Frances, Director General Local Government, Resilience and Communities, DLUHC; **Neil Harris**, Director for Local Audit, Financial Reporting Council; **Tony Crawley**, Chief Executive, Public Sector Audit Appointments Ltd

[Q1-100](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

TAR numbers are generated by the evidence processing system and so may not be complete.

- 1 ALATS (Association of Local Authority Treasurers Society) ([TAR0007](#))
- 2 Basildon Borough Council ([TAR0005](#))
- 3 Chartered Institute of Public Finance and Accountancy CIPFA ([TAR0015](#))
- 4 Deloitte LLP ([TAR0017](#))
- 5 EY ([TAR0012](#))
- 6 Fraser, Dr Anthony ([TAR0004](#))
- 7 Grant Thornton UK LLP ([TAR0001](#))
- 8 Healthcare Financial Management Association ([TAR0011](#))
- 9 ICAEW ([TAR0006](#))
- 10 Ichabod's Industries Ltd ([TAR0009](#))
- 11 Lichfield DC ([TAR0010](#))
- 12 Local Government Association (LGA) ([TAR0002](#))
- 13 Mazars LLP ([TAR0014](#))
- 14 Menon, Mr Kelvin ([TAR0003](#))
- 15 Society of County Treasurers ([TAR0008](#))
- 16 Society of London Treasurers ([TAR0013](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

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3rd	The future of the Advanced Gas-cooled Reactors	HC 118
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8th	Financial sustainability of the higher education sector in England	HC 257
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22nd	Tackling local air quality breaches	HC 37
23rd	Measuring and reporting public sector greenhouse gas emissions	HC 39
24th	Redevelopment of Defra's animal health infrastructure	HC 42
25th	Regulation of energy suppliers	HC 41
26th	The Department for Work and Pensions' Accounts 2021–22 – Fraud and error in the benefits system	HC 44
27th	Evaluating innovation projects in children's social care	HC 38

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29th	The Affordable Homes Programme since 2015	HC 684
30th	Developing workforce skills for a strong economy	HC 685
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32nd	Grassroots participation in sport and physical activity	HC 46
33rd	HMRC performance in 2021–22	HC 686
34th	The Creation of the UK Infrastructure Bank	HC 45
35th	Introducing Integrated Care Systems	HC 47
36th	The Defence digital strategy	HC 727
37th	Support for vulnerable adolescents	HC 730
38th	Managing NHS backlogs and waiting times in England	HC 729
39th	Excess Votes 2021–22	HC 1132
40th	COVID employment support schemes	HC 810
41st	Driving licence backlogs at the DVLA	HC 735
42nd	The Restart Scheme for long-term unemployed people	HC 733
43rd	Progress combatting fraud	HC 40
44th	The Digital Services Tax	HC 732
45th	Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2021–22	HC 1254
46th	BBC Digital	HC 736
47th	Investigation into the UK Passport Office	HC 738
48th	MoD Equipment Plan 2022–2032	HC 731
49th	Managing tax compliance following the pandemic	HC 739
50th	Government Shared Services	HC 734
51st	Tackling Defra’s ageing digital services	HC 737
52nd	Restoration & Renewal of the Palace of Westminster – 2023 Recall	HC 1021
53rd	The performance of UK Security Vetting	HC 994
54th	Alcohol treatment services	HC 1001
55th	Education recovery in schools in England	HC 998
56th	Supporting investment into the UK	HC 996
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58th	Energy bills support	HC 1074
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5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
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8th	COVID 19: Culture Recovery Fund	HC 340
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10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
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25th	The Department for Work and Pensions’ Accounts 2020–21 – Fraud and error in the benefits system	HC 633
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32nd	Delivering gigabitcapable broadband	HC 743
33rd	Underpayments of the State Pension	HC 654
34th	Local Government Finance System: Overview and Challenges	HC 646
35th	The pharmacy early payment and salary advance schemes in the NHS	HC 745
36th	EU Exit: UK Border post transition	HC 746
37th	HMRC Performance in 2020–21	HC 641
38th	COVID-19 cost tracker update	HC 640
39th	DWP Employment Support: Kickstart Scheme	HC 655
40th	Excess votes 2020–21: Serious Fraud Office	HC 1099
41st	Achieving Net Zero: Follow up	HC 642
42nd	Financial sustainability of schools in England	HC 650
43rd	Reducing the backlog in criminal courts	HC 643
44th	NHS backlogs and waiting times in England	HC 747
45th	Progress with trade negotiations	HC 993
46th	Government preparedness for the COVID-19 pandemic: lessons for government on risk	HC 952
47th	Academies Sector Annual Report and Accounts 2019/20	HC 994
48th	HMRC's management of tax debt	HC 953
49th	Regulation of private renting	HC 996
50th	Bounce Back Loans Scheme: Follow-up	HC 951
51st	Improving outcomes for women in the criminal justice system	HC 997
52nd	Ministry of Defence Equipment Plan 2021–31	HC 1164
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

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3rd	High Speed 2: Spring 2020 Update	HC 84
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15th	Improving the prison estate	HC 244
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26th	Department of Work and Pensions Accounts 2019–20	HC 681
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