Department for Levelling Up,
Housing & Communities

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Dame Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
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14 January 2021

Dear Dame Meg,

In our letter of 25 November 2021, we outlined that we were looking to develop further measures to help improve the timely completion of local audit. The issues facing the local audit market are complex and can only be tackled effectively through a whole system response. That is why my officials have been working over the last few months with key partners across the local audit system to agree collective action to tackle audit delays.

I am pleased to inform you that we have published a new package of measures to improve audit delays, with commitments from across the sector. The full detail of these measures is available online at https://www.gov.uk/guidance/measures-to-improve-local-audit-delays.

The package of measures is a true collaborative effort, with actions for all elements of the system, and demonstrates the commitment of all Liaison Committee members to supporting the ongoing stability of the local audit market, as well as the impact of our interim system leadership. Key measures committed to are detailed below.

Concern has been raised relating to audit firm capacity and capability. The FRC is leading on proposed updates to its Key Audit Partner guidance and will consult on its proposed KAP guidance updates in early 2022, with the aim to publish the guidance in spring 2022. In addition, CIPFA is progressing with the development of a local audit training diploma focussed on local government financial reporting and management. The diploma 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 support firms who may bid in the next opt-in procurement for local audit contracts.

In recognition of the longer-term issues, considering audit capacity will be a principal priority for the new system leader. Once the shadow system leader is established in Spring 2022, and following the outcome of the upcoming procurement, the department will collaborate with the new system leader and one to two successful audit firms to establish an industry-led workforce strategy, charged with considering the pipeline of future auditors and training.

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 until 2027/28. In addition to this, the NAO is preparing to a re-lay the Code of Audit Practice 2020 in Parliament, to provide certainty about the scope of audit over the whole of the next appointing period.

The NAO will be rolling over its amendments to 20/21 AGN 03 and 07 to allow for altering the timing of elements on the value for money arrangements work and enable more focus on fully delivering opinions on the financial statements.

We have also worked with partners to look carefully at the question of whether there are opportunities to reduce the focus of accounting and audit requirements on areas of lesser risk. While this would help to address capacity issues in the short-term, we have been mindful of the risk of unintended consequences. However, we have been able to agree a number of short and longer-term measures that strike this balance and should help to ensure that accounts and audits are focused on the areas of greatest risk.

HM Treasury will undertake a thematic review of financial reporting valuations for non-investment properties. This is alongside CIPFA LASAAC's existing project, agreed in June 2021, to improve the presentation of local authority accounts. These measures will inform the Accounting Code from 22/23 onwards.

The government has also asked CIPFA LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22 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 shortly. This is alongside delaying the introduction of the new standardised statement of service information.

Furthermore, longer term financial support will be provided to local bodies with £45 million of additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting new burdens related to appointment of independent members to audit committees and other Redmond recommendations and increased auditing requirements. This is alongside additional funding DLUHC will provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs.

We will engage with local authorities and audit firms to understand the impact of the new measures as we continue to implement our existing recommendations from the Redmond Review. However, we hope that the new measures we have announced will give the market the confidence it needs to help get the timeliness of local audit back on track.

Yours sincerely,

Jeremy Pocklington

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