

Written evidence submitted by Horsham District Council [FRA 010]

The evidence provided is from the Chairman of Horsham District Council's audit committee, relating to making local authority accounts meet the needs of users better, and especially on the improvements that the new local audit system leader can make.

Are local accounting requirements proportionate?

No they are not. It takes a small team of Council officers two months to bring the accounts together in the current 54-page format. This is despite officers automating some sections of the statements so that the data is directly derived from the ledger system. Other detailed sections still require significant manual intervention, and others, such as pension fund information, require a reliance on third party data and therefore their timings.

One example of disproportionate accounting requirements in recent years was the debacle when introducing IFRS9 in 2018/19. Many councils attempted to introduce an irrevocable election for Fair Value Other Comprehensive Income for their pooled investment funds when holding them for the long term. This was to avoid the impact to the taxpayer of fluctuations in the value (a paper gain or loss) from hitting the profit and loss account in year. Audit opinions were delayed whilst the technical experts debated. It ultimately resulted in an unwanted compromise of temporary overrides in the public sector. The overhang of a long-term solution has still not been resolved. Common sense suggests a permanent override, but the technical debate should have considered the impact before being interpreted in this way in the first place.

Are the bespoke reporting requirements for local government accounts (as opposed to central government accounts or non-government accounts) beneficial?

No. NHS statement of accounts can be directly compared to each other in identical formats. Whilst acknowledging the greater complexities and variety in local government activity, a clearer and shorter format would make council accounts less impenetrable to the average reader.

Do local authority finance teams have sufficient expertise and capacity?

There is sufficient expertise, but not sufficient capacity. Capacity has been eroded by:

- a reduction of Government funding lowering headcount
- an increase in demand for finance input elsewhere:
 - more commercial activity to generate income to offset the loss in funding
 - elongated and disjointed external audit visits which now clash with key periods such as budget setting or into the next financial year
 - more difficult budget setting processes due to uncertainties of single-year settlements
 - additional burdens and responsibilities handed down from Government
- a greater degree of complexity in almost everything that is done

Could changes be made to local authority accounts that would both simplify their production and improve understandability for users?

Yes.

- Remove Expenditure and Funding Analysis
- Remove Adjustments between Funding and Accounting Basis
- Simplify PPE notes and annual valuations – removing much of the basis for differences in professional expert opinions (between Council and auditor) that add weeks to the audit to resolve and haven't, to date, ended up in any material adjustment.
- Reduce going concern requirements in local government except in exceptional circumstances – such as merging authorities or S114 notices.

- Reduce complexity of Collection Fund – no-one, aside from a few technical experts, understands it.

How could local authority annual report and accounts be more accessible?

Radically reduce the requirements and simplify. Note we do not advocate adding an additional summary – as this just increases the workload for officers and is then something else to audit.

What is the role of the new local audit system leader in improving local authority accounts?

The first role of the new local audit system leader must be to improve the timeliness and capacity of external audit. This will then help deliver timely, thorough audits of simplified but better understood accounts for residents.

In December 2021, Horsham District Council opted out of the PSAA procurement route for the audits for 2023/24 to 2027/28 in a bid to obtain an auditor that could audit a straight-forward set of district council accounts in June, for completion and sign off in July. Unfortunately, the Council received only one tender bid, which was subsequently withdrawn. Consequently, the Council has had to go back into the PSAA fold.

The detrimental impact and knock on effect of the turmoil in the external audit sector is easily demonstrated. Officers in Horsham prepared the 2021/22 accounts in early July 2022, well before the 31 July deadline and yet to date, nine months later, they have still not been signed off by the external auditor.

The external auditor did not start the audit the statements until 30 October 2022, once the larger unitary audits were complete, making it practically impossible for them to issue an audit opinion before the end of November 2022 deadline. After weeks of pointless wrangling over an immaterial PPE valuation issue, the audit opinion is now being held up by an issue with the triennial pension valuation that technical experts have spent weeks out-debating each other when the impact on what is an estimate is meaningless to the average reader. This would all have been irrelevant had the audit opinion been signed by the statutory deadline of 30 November 2022.

The new local audit system leader role should therefore include enforcing a return to the September audit opinion deadline.

Ultimately, officers want to present a simple, understandable set of statements to audit by 31 May and complete the audit before the information relating to the audited year becomes distant, and before the next round of budget setting in September. The external auditor would in turn be able to audit the statements more effectively, focusing on areas of higher risk in more detail, and following their auditor's nose. The public would in turn be able to better understand their local authority accounts, alongside the regular financial and performance information.

The demise of District Audit has been a catalyst for a reduction in governance, a reduction in accountability, a reduction in standards, a reduction in timeliness and a reduction in quality. The new local audit system leader should investigate returning to the District Audit model.

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