

To Members of the Audit and Corporate Governance Committee

Cllr. Shane Blackwell (Chairman)
Cllr. Stuart Coar (Vice-Chairman)

Cllr. Nick Chapman
Cllr. Alex DeWinter

Cllr. Paul Hartshorn
Cllr. Mark Jackson

Cllr. Kirsteen Thomson

Dear Councillor,

A meeting of the **AUDIT AND CORPORATE GOVERNANCE COMMITTEE** will be held in the Council Chamber - Council Offices, Narborough on **MONDAY, 17 APRIL 2023 at 5.30 p.m.** Please find attached a number of supplemental items that are required for the meeting and are in addition to the agenda and report pack that has already been circulated.

Yours faithfully



Louisa Horton
Corporate Services Group Manager and Monitoring Officer

SUPPLEMENTAL ITEMS

6. Local Audit Delays (Pages 3 - 12)

To consider the report of the Finance Group Manager (to follow).



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Blaby District Council

Audit & Corporate Governance Committee

Date of Meeting 17 April 2023
Title of Report Local Audit Delays
Report Author Finance Group Manager

1. What is this report about?

- 1.1 To provide members with an update on progress towards the audit of the Council's annual accounts, and actions that are being taken at a national level to improve the picture in terms of local audit provision.

2. Recommendation(s)

- 2.1 That the Audit and Corporate Governance Committee note the impact of local audit delays and expected outcomes of the Redmond Review.

3. Reason for Decision(s) Recommended

- 3.1 To ensure that the Audit and Corporate Governance Committee is appraised of the latest position regarding the audit of accounts and likely implications arising from the Redmond Review.

4. Matters to consider

4.1 Background

Members will be aware of the significant delays that have been experienced nationally over the past three years in terms of the audit of local government accounts.

The last financial year that the publication deadline was met was 2018/19, when the audited accounts were signed off and published by 31st July 2019, in accordance with the prevailing requirements of the Accounts and Audit Regulations. The accounts for each subsequent financial year have been subject to protracted delays.

- 2019/20 Accounts – delays exacerbated by the Covid-19 pandemic and extended publication deadlines were granted via the Accounts and Audit Regulations. Unaudited accounts were permitted to be published by 31st August 2020 instead of 31st May – this deadline was met by officers. The deadline for publication of the audited accounts was moved back to 30th November 2020 from 31st July. However, despite a near-final set of

accounts being brought to this Committee in February 2021, ultimately the accounts were not signed off until August 2021.

- 2020/21 Accounts – the extended publication deadlines were 31st July 2021 for unaudited accounts (met), and 30th November 2021 for audited accounts. Only 12% of local authorities' accounts were published by the November deadline and Blaby's, along with many others, have still not been concluded. The Executive Director (Section 151) and Finance Group Manager met with the Council's auditors, EY, in March to try again to expedite the conclusion of the audit. The audit files are currently in the process of being reviewed by the Audit Manager and Partner, and the latest expectation is that the accounts will be signed off in early May 2023. This is clearly very disappointing, now being more than two years since the balance sheet date, but at the time of writing there are no adjustments of a material nature that will affect the substance of the accounts.
- 2021/22 Accounts – the publication deadlines were the same as for 2020/21. Blaby met the requirement to publish the unaudited accounts by 31st July but due to the delays in auditing the 2020/21 accounts, the audit for 2021/22 will not commence until July 2023 at the earliest.
- 2022/23 Accounts – the Accounts and Audit (Amendment) Regulations 2021 brought the publication deadlines forward to 31st May and 30th September for unaudited accounts and audited accounts respectively. The closedown of the 2022/23 accounts is underway and is timetabled to achieve the May deadline. However, EY have already made it clear that they will not commence the audit for 2022/23 until June/July 2024, so there is no immediate end in sight to the audit delays.

4.2 The Redmond Review

In July 2019, Department for Levelling Up, Housing and Communities' (DLUHC) predecessor, MHCLG, commissioned a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. Sir Tony Redmond was appointed to undertake the review due to his experience in the Local Government sector and former role as President of the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Redmond Review highlighted three key problems:

- Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014. In particular, weaknesses were highlighted in the functioning and value of local audit, the timeliness of its findings and how these are considered and managed by local authorities. This is very pertinent for Blaby in terms of the audit delays because they have led to uncertainty over the exact resources available to Members when making financial planning decisions. Whilst

Blaby has a strong track record in delivering its financial accounts in a timely fashion, until the audit has been concluded there is always the risk that late adjustments may be required that impact on the availability of reserves.

- The Redmond Review commented upon how local audit is an unattractive market within which audit firms and individual auditors must operate. This could ultimately lead to some audit firms withdrawing from the market. Again, this holds true in Blaby's experience where its external auditor, EY, have struggled to recruit enough adequately qualified auditors to fulfil their contractual obligations.
- The introduction of a localised audit framework in the Local Audit and Accountability Act 2014 led to roles and responsibilities for local audit being spread across multiple organisations, following the abolition of the Audit Commission. This was seen as a contributing factor in making the resolution of weaknesses in the system more challenging.

The Redmond Review made several recommendations, the main outcomes of which will be:

- Increased audit fees to enable adequate resources to be deployed to meet local audit requirements. This has been highlighted to Audit and Corporate Governance Committee at a previous meeting where it was disclosed that fees can be expected to rise by around 150% from 2023/24 onwards, under the new local audit contracts. This increase has been allowed for within the Council's 2023/24 budget and, whilst some new burdens funding is expected to be forthcoming, it is unlikely to meet the full additional cost.
- The deadline for publishing local authority audited accounts has been revised to 30th September until 2027/28 although, as stated above, this deadline will not be achieved for 2022/23.
- A new regulator, the Audit Reporting and Governance Authority (ARGA) will act as the system leader for local audit, effectively performing the role once undertaken by the Audit Commission. Until the ARGA is established through legislation, the Financial Reporting Council (FRC) will assume the role of shadow system leader.
- Legislation will be put in place to make it a statutory requirement to submit an annual report to Full Council and to have an Audit Committee with at least one independent member (as described in the Shared Service Audit Manager's report elsewhere on this agenda).
- Updated guidance and amended regulations requiring the external auditor to present an Annual Audit Report to the first full Council meeting after 30th September each year, irrespective of whether the accounts have been certified.

DLUHC has written to local authorities and local audit firms in March, setting out their progress towards establishing the new system leader and also stating their concerns over the ongoing audit delays.

The FRC has appointed a Director of Local Audit and a new local audit unit has been established to spearhead the FRC's role as shadow system leader. Shadow arrangements are expected to commence in the coming months although no firm deadline has been given.

DLUHC has stated that it is incumbent on the Chief Financial Officer to report to the Chief Executive, and Audit Committee if there are any concerns over the capacity, capability, and ability to deliver high quality draft financial statements by the statutory deadline. As mentioned in paragraph 4.1, Blaby has continued to meet the statutory deadline for publishing its unaudited accounts in every year but the year of the pandemic, when the deadline was relaxed. There is no doubt that it will be challenging to revert to the earlier deadline of 31st May, but the Finance team is committed to meeting that deadline despite having to also manage the demands of earlier outstanding audits.

A copy of DLUHC's letter is attached at Appendix A to this report.

5. What will it cost and are there opportunities for savings?

- 5.1 There are no direct financial implications arising from this report, although audit fees are expected to rise by around 50% under the contracts effective from 1st April 2023. The sum of £175,000 has been allowed within the 2023/24 budget. DLUHC has declared its intention to make new burdens funding available but final details have not yet been shared, and the funding will not fully cover the additional cost of audit.

6. What are the risks and how can they be reduced?

- 6.1 To follow

Current Risk	Actions to reduce the risks
That the additional burdens placed on the Council by the increase in the audit fees and reporting requirements will not be covered by additional funding.	This will be kept under review and reflected in the annual budget process and MTFS projections.
The Council will find difficulty in recruiting a suitably experienced independent member to sit on the Audit and Standards Committee.	Working Group to be established as outlined in the report of the Shared Service Audit Manager's report on this agenda.
That the deadline for publication of the unaudited accounts is not met.	A detailed timetable is in place covering all elements of work required to close the

	accounts. Experienced and committed team of Finance officers. Weekly team meetings to monitor progress.
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7. Other options considered

7.1 None.

8. Other significant issues

8.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

9. Appendix

9.1 Appendix A – DLUHC letter to local authorities and local audit firms.

10. Background paper(s)

None

11. Report author's contact details

Nick Brown	Finance Group Manager
Nick.Brown@blaby.gov.uk	0116 272 7625

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Department for Levelling Up,
Housing & Communities

Catherine Frances
Director General, Local Government,
Resilience and Communities
**Department for Levelling Up, Housing
and Communities**

2 Marsham Street
London SW1P 4DF

To: Local Authority Chief Executives and
Chief Financial Officers in England and
Local Audit Firm Partners

14 March 2023

Dear Chief Executive / Chief Financial Officer / Local Audit Firm Partners

For 2020/21 only 12% of local government bodies audited accounts were published by the 30 November deadline. These delays affect the assurances that can be given to taxpayers and elected representatives; and impact on authorities' ability to plan and manage their services and finances effectively. This is a multifaceted and complex problem that requires all actors in the local audit system to play their part. Securing the capacity required for the next contracting period through the most recent procurement led by PSAA is reassuring and has resulted in two new entrants into the market; and there have been several technical solutions that have been put in place to reduce the burdens on auditors and local authorities so that auditors can focus on the backlogs. This letter is to update you on DLUHC's continued work to respond to Sir Tony Redmond's *Local Authority Financial Reporting and external audit: independent review* (the Redmond Review) and to reaffirm the Department's continued resolve to work with you and others across the sector to ensure a system wide approach to reducing the continued delays to local audit.

Local Audit System Leadership

First, I am pleased to let you know that we have recently published a Memorandum of Understanding (MoU) between DLUHC and the Financial Reporting Council (FRC), setting out the roles and responsibilities the FRC will assume as shadow system leader for local audit. A copy of the MoU can be found on the website of the Local Audit Liaison Committee [here](#).

The Redmond Review identified that the fragmented nature of the local audit system limited the ability of the system to respond to emerging challenges. DLUHC's vision for local audit focuses on the need for a system leader to enhance coordination and collaboration amongst stakeholders and establish clear accountability for the functioning of the system. The role of a system leader for local audit will therefore be vital to drive through the reforms necessary for a sustainable, effective local audit system.

The FRC appointed Neil Harris as Director of Local Audit in September 2022 and Neil has established a new local audit unit to spearhead the FRC's new role. We expect full shadow arrangements to start in the coming months, at which point the Department will issue a Remit Letter setting out our policy priorities. The shadow period will continue until the Audit, Reporting and Governance Authority (ARGA) is established through legislation.

Local Audit Delays

The recent National Audit Office's report (*Progress update: Timeliness of local auditor reporting on local government in England*) set out that the backlog of audit opinions remains considerable and pervasive and that the reasons for this are multifaceted. Addressing the existing backlog, alongside embedding sustainable, long-term culture change on timely and high-quality financial reporting and audit will be a key focus for the FRC in its new role.

We and the FRC will continue to engage all parts of the system to determine if further measures are needed in addition to activity underway as set out in our December 2021 publication *Measures to Improve Local Audit Delays*. For example, as you will be aware, the Government acted at the end of last year to lay a Statutory Instrument to provide a temporary solution to the issue concerning the audit of local authority infrastructure assets. These regulations are now in force and I would like to take this opportunity to stress that authorities affected by the issue should seek to close outstanding accounts as soon as possible.

Chief Executive Officers, Chief Financial Officers and your finance teams are critical to delivering high-quality financial reporting in the public interest. As you will be aware, this includes complying with the Chartered Institute of Public Finance and Accountancy's (CIPFA) financial reporting framework, professional accounting standards, being accountable with appropriate expert support for critical accounting judgements, estimates and ensuring through robust internal quality assurance that sufficient and appropriate evidence exists to support the primary statements and disclosure notes ahead of audit. This should involve submitting the annual auditor's report to the Audit Committee and then Full Council, accompanied by the response recommended by the audit committee to any significant issues raised in the report. It is also incumbent upon the Chief Financial Officer to report to the Chief Executive, Audit Committee and others if there are any concerns on the capacity, capability and ability to deliver high-quality draft financial statements by the statutory deadline.

Within audit firms, auditors and the Key Audit Partner also have a fundamental role in safeguarding high quality audits but also setting out to the Chief Executive, CFO and Audit Committee a realistic project and delivery plan for delayed audits and the critical dependencies. For example, this may involve (but is not limited to) obtaining sufficient and appropriate evidence from management on critical judgements, or securing the appropriate mix of skilled and specialist audit resource. Key Audit Partners also have a critical role to report as soon as practicable where they have identified any significant concerns and/or risks of significant weaknesses in Value for Money arrangements and what action should be taken by management, Audit Committee and full Council. It is just as important for this to happen if the delays are associated with concerns on the Local Authorities' financial reporting systems, process, capacity and capability.

The Department and FRC are now actively reviewing where lengthy backlogs of audits exist from both an auditor and local authority perspective. It is evident that in some cases an audit has not been completed in several years and this is clearly not in the interests of the council or the taxpayers. We expect audit firms and Local Authorities to work together to resolve this and I urge you to make every effort to collaboratively consider where historic issues are compounding delays unnecessarily and, where they are, to put in place an action plan and timetable to ensure these are swiftly resolved. I would also ask that, if you have not already done so, Local Authority CEOs and CFOs, and your respective audit partners each provide the Audit Committee with a written position statement. This should set out the outstanding matters, the impact this position could have on the audit opinion(s) and any reporting under statutory audit powers, the actions and timetable to resolve these from a local authority and auditor perspective, as well as a judgement from each of you on how realistic and achievable this is. This should be done as early as possible and would enable the Audit Committee to exercise its role to determine whether it has sufficient assurance on the action plans and if not

what additional information and explanations it requires to make a decision that balances a realistic and swift timetable for authorising the historic audited financial statements for issue. You should also consider whether this statement should also be submitted to full council.

It is clear that ensuring system wide timely delivery of local audits will require a continued, concerted effort from everyone across the system and I welcome your joint support in this undertaking.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C Frances', with a small dot at the end.

CATHERINE FRANCES

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