

Submission to the Public Accounts Committee

Timeliness of Local Auditor Reporting

A Submission by:

The Chartered Institute of Public Finance and Accountancy

Date: March 2023

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

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1. Executive summary

- 1.1 CIPFA welcomes the invitation to provide written evidence to the Public Accounts Committee into timeliness on local auditor reporting which focuses on issues integral to the work of CIPFA. It is a part of CIPFA's mission to build trust by strengthening public financial management, to both promote public finance globally, and encourage good governance in the public sector everywhere. CIPFA has also, over a long period, worked closely with all forms of public sector audit and shares PAC's concerns about timeliness.
- 1.2 CIPFA is of the view that the inquiry should provide an opportunity to review and consider the current challenges to the system and the effectiveness of the actions taken since the Redmond Review in 2020. Underlying issues in the system have not yet improved. In most aspects the position has worsened, resulting in the issues set out in the NAO report. The fact that best summarises the situation is that Public Sector Audit Appointments (PSAA) reported that there were 632 audit opinions outstanding in November 2022.
- 1.3 Local authorities are operating in a very difficult financial environment and effective financial reporting, governance and audit are key. But although the relevant information is in the accounts, CIPFA recognises it is difficult for council taxpayers and service users to be able to understand how resources have been used. CIPFA has a longstanding commitment to improving financial reporting and operates through CIPFA/LASAAC as the standard setter for local government across the United Kingdom. CIPFA looks forward to the Levelling Up, Housing and Communities Committee's [inquiry](#) into Financial Reporting and Audit in Local Authorities which is considering the users and uses of local authority accounts and audit.
- 1.4 CIPFA has outlined in some detail the current challenges and possible solutions in this report but considers a whole system approach is needed. Perhaps it is most useful to summarise the challenges to the system and the actions for change in three areas: 1) the local audit system ie the structural issues and the legislative framework in which the system operates, 2) the audited bodies (we have focused for this report on local government bodies) and 3) local auditors.

Areas	Challenges
The Local Audit System	<ul style="list-style-type: none">Market capacity – CIPFA acknowledges the substantial work of Public Sector Audit Appointments (PSAA) in recent its procurement exercise which secured new entrants to the local audit market. However, the number of attempts required to meet the market needs indicates that the market is still fragile. The fragility of the local audit market and its workforce challenges (as previously discussed by PAC), including the absence of a body being able to act as an auditor of last resort, leads CIPFA to believe that radical change to the system is required.

- **Strong system leader** – CIPFA is of the view that a strong system leader is vital to manage, oversee and regulate the local audit system. It acknowledges the significant work of the FRC in its preparations to become a system leader and the appointment of the Director of Local Audit. The structural challenges of the current system are of such magnitude that it requires the bringing together of the whole system including workforce planning and regulation, to allow for step changes to the system. CIPFA would highlight that this is not a comment on the work of the FRC but is of the view that the radical actions necessary may not be possible under the current system and proposed structures.
- **Use of the duties and powers under the system** – the lack of incentives to use key parts of the system, for example, of the statutory audit powers for reporting and making recommendations which could improve systemic issues in local government such as governance and the approach to interests in other entities such as local authority commercial activities. They could also provide earlier warnings of larger scale failures.
- **Short-term actions** – although actions have been taken and prioritised in the short-term, the system needs further urgent decisions and needs to make significant interventions with both short and longer-term impact. This is becoming increasingly urgent as the delays mean that the normal assurances gained from the audit are missing. The cumulative impacts are also having a significant effect on finance team resources. As the NAO report points out, it is also impacting on the wider public sector financial reporting including the Whole of Government Accounts.
- **An audit system which meets the needs of the users of the accounts** – audit should meet the needs of the users of the financial statements and wider stakeholders. CIPFA has welcomed the recent FRC [Major Local Audits Audit Quality Inspection](#) report issued in October 2022, but considers that more work is needed to ensure attention could be focused on the higher risk areas of the financial statements as they apply to local authority accounts. Areas where problems have arisen are the measurement of property, plant and equipment and pensions assets and liabilities. Note that property, plant and equipment have been measured at current value since 1994 and it has only been a problem since 2016/17 when the regulatory framework changed. There are developments where improvements have been proposed (see the changes to [Practice Note 10: Audit](#)

	<p>of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom with regard to application of materiality), but it needs a strong system leader to ensure that these changes are applied and proportionality of the audit means that this useful information is able to be used without the cost of the system outweighing the benefits.</p> <ul style="list-style-type: none"> • Complex accounts – there has been much discussion that local authority financial reporting is too complex. Local authorities are mature organisations that enter into complex transactions including their financing arrangements. Local authorities operate under the same accounting framework (International Financial Reporting Standards) as the rest of the public sector. CIPFA would caution against a move that might lead to less accountability than the other public sector organisations. CIPFA has undertaken a variety of exercises to investigate various means of better reporting so that their key messages can be reported to the users of the accounts. It has established a working group (the Better Reporting Group) to consider how this might be achieved and to promote best practice. It has also prioritised local authority performance in CIPFA LASAAC’s Updated Strategic Plan (including being able to take early action on Redmond Recommendations for summary reporting of performance and summary financial information). <p>[Note the CIPFA LASAAC Local Authority Accounting Code Board is a joint Board of CIPFA and Local Authority Scotland Accounts Advisory Committee responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom]</p>
<p>Audited Bodies (local government)</p>	<ul style="list-style-type: none"> • Resource issues - budgets in the sector have been subject to substantial constraint for over a decade. This has had an impact on the finance teams in local authorities including their capacity to be able to respond to both the regulatory changes while supporting the authority on other vital activities such as delivering on budgeting for such issues as the cost-of-living crisis and key policy issues. These resource issues are compounded by the protracted nature of the current audit processes. • The reporting burdens in local authorities, much like the rest of the public sector, have increased significantly in recent years. Local authorities should be able to communicate the key messages in the financial statements to council taxpayers and members as their representatives but are having increasing difficulties in doing this.

	<ul style="list-style-type: none"> • Skills and expertise - CIPFA's own review of commentaries in ISA 260 Reports for the 2019/20 year has indicated that local authorities could improve financial reporting and that the documentation which supports the financial statements and auditors have made regular comments on the quality of the financial statements. This may be due to resource issues in local authority finance teams. Skills and expertise in local authority finance teams may also need to be improved.
<p>Local Auditors</p>	<ul style="list-style-type: none"> • Workforce/capacity – this is both a whole system issue and for individual firms but there is a significant capacity issue in local audit which not only impacts on the local audit system but also on the NHS which has been exacerbated by increasing regulation. • Skills and knowledge - the Redmond Review included evidence that the reduction in audit fees meant that this led to both a decline in the number of auditors but also questioned the availability of skills, knowledge, and expertise. CIPFA's own work on the commentaries made in in ISA 260 Reports for the 2019/20 year indicated that improvements in communication could be made.

- 1.5 CIPFA has worked with all stakeholders in local audit to support the current system including actions to improve and develop the system in the future, and has worked to support both interim and shadow system leaders. However, CIPFA is concerned that despite best efforts market fragility, difficulties in audit supply, and substantial workforce issues are evidence that more significant structural change is needed. It is vital that a strong and sustainable local audit function is created and maintained.
- 1.6 CIPFA supports the need for more radical change to the system and make a reality of the Redmond Review recommendations of establishing a strong system leader, dedicated to local audit and responsible for the whole of the local audit system. The FRC in its new role may be able to fulfil this role but will require the support of stakeholders across the system and from government. The system in England still lacks some important key features, such as a body that is able to act as 'auditor of last resort' and is able to act in instances where the market might fail including in single instances where, for example, there are conflicts of interest and an auditor cannot be 'rotated' so that at least in the short term any gaps might be filled.
- 1.7 CIPFA is of the view that a strong system leader will need to take decisions across the local audit system and be able to bring various parts of the system together and affect stepped change. This will include those parts of the system which are not directly within the remit of DLUHC, such as NHS bodies and the Whole of Government Accounts. While the FRC will be able to influence and convene the various stakeholders within the system, it is not clear what direct powers it will have to take decisions and make the interventions that will be needed to affect change.

1.8 CIPFA has made several other recommendations in its submission:

- **Local audit system:**
 - Improve the capacity of the system building on the current work of PSAA in the short, medium and long-term
 - Short-term action: removal of the pension fund accounts from the administering authority accounts
 - Short-term action: a collation of reasons for delays by a central body, this could be the FRC supported by PSAA and the monitoring of progress by the Liaison Committee or a dedicated sub-group thereof
 - Short term action: A statutory deadline or cut-off date for reporting years prior to a given date. This would require auditors to issue an opinion by a given deadline even if that opinion is qualified in some way or even disclaimed. Again, this would require changes to legislation and careful application.
 - Short-term action: There may be scope for temporarily looking at further reductions in the financial reporting requirements for local authorities particularly where the reporting burden is significant, but this would have to be carefully assessed and applied for the impact on the quality of reporting and for any longer-term or unintended consequences. Such changes are also unlikely to be able to be achieved via the accounting Code and are likely to be better achieved via legislative arrangements to provide an indication that they are a temporary easement.
 - Significant work to ensure that the audit of local authority accounts is proportionate and supports the users of the accounts.
 - Support appropriate use of the powers available to local auditors so that they can be used to identify value for money, systemic issues and potential failures at their earliest opportunity.
 - CIPFA LASAAC consider opportunities for improvements in the reporting of performance including summary financial information
 - CIPFA Better Reporting Group to look at ways to improve reporting and the presentation of the key messages in local authority accounts.
- **Local audit bodies (local government):**
 - Short-term action: public reports produced and reported potentially to full council by audited bodies and auditors on the reasons for delay and the plans and timescales to address them
 - Support is provided to local authority finance teams in terms of both capacity and capability such that better quality financial statements and working papers are provided.
- **Local auditors:**
 - Short-term action: a moratorium or limitation of scope of the local audit inspection regime to allow firms to focus on delivery of audit work and allow the inspection teams a better population of audits to inspect
 - Encouragement to local auditors for use of their statutory powers at an early opportunity and ensure that risk management systems support this.
 - Support for the development of the local audit diploma.

1.9 CIPFA considers that the more substantial changes outlined above are likely to take several years to implement. CIPFA is more than happy to support or explore with the system leader how the shorter-term actions can be taken to improve timeliness.

Additionally, while the focus is on the system, process and frameworks improvement can also be achieved by improving the skillsets of auditors, accounts preparers and others in the governance framework.

2. Introduction

- 2.1 CIPFA welcomes the invitation to provide written evidence to the Public Accounts Committee inquiry into the timeliness of local government reporting. CIPFA sees both local authority accounts and audit as being vital parts of local authority transparency and accountability, but both need to be working effectively to achieve this. CIPFA is clear that to support the local audit system, audit and financial reporting need to be high quality. The current delays in the audit of local authority financial statements prevent its effectiveness. It is, however, a complex picture with many contributing parts including the COVID-19 pandemic.
- 2.2 CIPFA's response below covers the importance of local authority accounts and audit and its role in local authority finances. It considers both the short-term issues and the elements of the local audit system, which need to change. Urgent action is needed as is a route map of actions for a return to the position where very high percentages of audited financial statements make the statutory deadlines for publication.
- 2.3 CIPFA welcomes all opportunities to support the system leader in those actions, both in its regulatory role as a part of the financial reporting standard setting process for local authority accounts and as the only Recognised Qualifying Body (RQB) for local public audit. As an RQB, CIPFA can support the system on capacity and capability in various ways and will support the system leader across all its plans.

3. The importance of local authority accounts and audit

- 3.1 Local authority accounts are an integral part of the accountability framework. They provide a financial record of all the decisions taken in a year and allow stakeholders to assess:
 - How an authority has spent its resources on services and the community, and whether this has increased or decreased from previous years
 - An authority's future commitments to debt and liabilities, in both the long and the short-term, and for both capital finance and pensions, therefore showing their future impact on both future services and generations of council taxpayers
 - The value and therefore the usefulness of its assets and consider how well an authority has managed them
 - The impact of an authority's financial and other internal control procedures

The financial statements are accompanied by the Annual Governance Statement and Narrative Report which provides an essential support to accountability.

- 3.2 Local audit provides an essential source of assurance in our systems of local democracy and public accountability. Auditors provide an independent professional opinion on the financial statements of organisations responsible for spending billions in public money.

- 3.3 The assurance provided by the auditing of financial statements and their accompanying documents is an essential part of transparent and accountable public service.
- 3.4 Auditors also provide assurance around the arrangements these organisations have in place for achieving economy, efficiency and effectiveness in their use of resources. The current system provides external auditors with statutory powers to bring forward matters of concern that should be brought to the attention of the audited body and the public. Auditors have several other statutory powers and duties:
- Sections 26 and 27 of the Local Audit and Accountability Act 2014 (LAAA 2014) provides local government electors with the right to object to their local authority accounts (and any records that support them) – local auditors can decide on objections received in relation to the accounts
 - Section 28 of the LAAA 2014 allows auditors to apply to a court that an item of account is contrary to law
 - Auditors are required to consider whether to issue and, if appropriate, to issue an advisory notice or to make an application for judicial review
 - Auditors have powers under schedule 7 of the LAAA 2014 to make reports on any matters that comes to their notice during the audit which should be brought to the public's attention (ie it is in the public interest)
 - Auditors have powers under schedule 7 of the LAAA 2014 to make written recommendations to the audited body under Section 24 and Schedule 7 of the LAAA 2014.
- 3.5 This submission will discuss how these powers have been used more frequently. Public interest reports for several local authorities have identified significant weaknesses and two frequent areas appear to be governance and the risks relating to local authority's undertaking more commercial activities. CIPFA has issued its Advisory Notes on topics relevant to these issues:
- [Advisory note one: Understanding the challenge to local authority governance](#)
 - [Advisory note three: The importance of good governance, effective oversight and accountability of council-owned companies](#)
 - CIPFA has also issued [Local authority owned companies: A good practice guide \(2022\) CIPFA](#)
- CIPFA has also published an updated position statement and supporting guidance on audit committees in local authorities and police to help authorities strengthen their own focus on their governance, risk management and internal control arrangements.
- 3.6 It is arguable that other areas of concern and weakness that have been identified in recent high-profile cases could have been, and perhaps were, identified by the audit process, but there are few incentives in the system and its regulatory processes to do this. This is perhaps understandable as these are complex problems to address and often highly technical areas. They need the support of the whole system to ensure that they are taken forward in a timely manner. CIPFA would support the system leader in attempts to encourage a wider use of these powers as having an early warning of the issues that have arisen gives the audited bodies time to address them.

4. Short-term Issues

- 4.1 CIPFA is extremely concerned about the delays in the publication of audited financial statements and, as set out in the National Audit Office (NAO) report on audit timeliness, the latest position is both unacceptable and worsening. CIPFA is aware that the whole of the local audit system shares these concerns and acknowledges that the current situation is unsustainable.

Short-term issues – impact on the local audit system

- 4.2 There has been a series of measures outlined by Government to improve the timeliness of local audit in the short term. The Local Audit Liaison Committee and the Financial Reporting Council, in preparation for its role as system leader, have been developing a significant programme of activities and actions to address the current delays. CIPFA is supportive of this work and will continue to actively engage with it. However, we feel that it is increasingly likely that significant interventions will be needed to remedy the current situation and that these actions are becoming increasingly urgent.
- 4.3 The delays in the audit process have a substantial effect on the local government audited bodies. As well as the gap it presents in the assurances about the financial performance, financial position, and overall control environment, assurance over governance arrangements from the publication of the Annual Governance Statement is also delayed. It also means that the normal assurance gained from the audited financial statements, ie on the opening balances of succeeding years, is not available. There is also an ongoing operational burden; having to respond to queries from preceding years diverts finance teams away from current tasks and has a cumulative impact on accounts close-down and audit timetables.
- 4.4 The Committee will be aware that the delay in local audit has significant impact on wider public sector accounts and finances. The delays in the audit of local authority financial statements will impact on the information submitted to the Whole of Government Accounts (WGA) both in respect of timeliness and quality. There are other issues highlighted in the NAO report such as the impact on some central government departments which require audited information and assurances from the Local Government Pension Scheme, prior to submitting accounts.
- 4.5 On this latter point, CIPFA and CIPFA LASAAC have been clear for some time that Local Government Pension Scheme accounts should not be included in the administering authority pension scheme accounts (the local authority accounts). This would provide several potential benefits such as:
- allowing for different timetables for the audit of the pension fund financial statements, prioritising pension fund financial statements and audits would remove a potential barrier for the timely production and audit of the financial statements for all employers in the fund
 - reducing the length of the administering authority financial statements
 - providing better information for the different readership of both sets of financial statements.

- 4.6 CIPFA and CIPFA LASAAC have recently repeated their calls for this when considering the possibility of changes to local authority accounts which might ease the reporting burden for both local authority auditors and account preparers. They understand that this will require change to primary legislation but would request that this is done at the earliest opportunity.

Short-term issues – insufficient capacity

- 4.7 There is a capacity problem in local audit. While the capacity issue has been most acutely felt in local government audit, they pose a risk to other sectors, most notably the NHS.
- 4.8 The lack of capacity in the system was recently demonstrated by an item in the local government press where the loss of one audit manager ‘paused’ an audit of a large unitary authority. Our engagement with the sector confirms that this type of incident is not isolated. Audit suppliers find themselves in a difficult position. In the last 10 years the external audit profession has been subject to increased scrutiny from regulators following several well documented and high-profile failures. This shift in the wider profession has impacted on local audit and has increased the amount of work required in several areas. Audit suppliers have had to meet these extra demands at a time when audit fees in the public sector were reducing. Making the necessary investment has been particularly difficult and has resulted in an increase in the time taken to deliver audit work. With this increase in the amount of work required to meet increased regulatory expectations came a parallel change in culture within audit firms: priority is given to mitigating the risks to the firm from negative outcomes from external inspection, over the potential negative outcomes from not providing assurances in line with the statutory timetable for publication of the financial statements.
- 4.9 Capacity is not just an issue for auditors. Preparers of accounts are also under increased pressure. Local government has seen its core spending power decrease in real terms in the period 2015/16 to 2022/23 but constrained resources have been an issue for over a decade. Local government has struggled to recruit and retain people throughout this period, with this being true in its finance community as well as its service areas. The increased work that auditors are doing in several areas has a corresponding impact on local authority accounts preparers who must field the questions from auditors and provide the evidence to support their responses, this is often very iterative in nature. Financial statements preparation and closedown are not the only tasks which finance teams deliver. They sit alongside other important activities such as financial planning, budget management and in-year financial monitoring. Organisations plan for these activities to take place as part of an annual business cycle. The protracted nature of the current audit process makes effective planning incredibly difficult for auditees as well as auditors.

Short-term issues – actions

- 4.10 CIPFA believes that it is highly unlikely that the system, as currently constructed, will be able to address the current backlog in unaudited financial statements and we anticipate that unless action is taken the current situation will worsen in the 2022/23 financial year. While the capacity is a root cause of the current crisis, even with considerable investment, time is needed to build the capacity required in the system

and this should remain a key long-term goal. The addition of short-term resources would help to improve the current situation. However, we are not convinced that the capacity exists to make a significant impact on the current position and that other options need to be considered to address this.

- 4.11 Actions taken to date have responded to the concerns raised by preparers of financial statements and auditors. They can largely be characterised as attempts to reduce the burden on preparers and auditors. They have required either a delay in the introduction of financial reporting requirements, or the laying of statutory instrument to legislate in situations where proper accounting practice has created the potential for additional burdens to be placed on preparers or auditors. This is not a sustainable situation and although it may help to solve immediate crises it merely delays the impact of the burden to future financial periods. The table below summarises these actions:

Actions taken Relating to the Accounts	Outcomes
In an emergency consultation in January 2022, CIPFA LASAAC consulted on the possibility of at least pausing the valuations of local authority assets.	This proved to raise the risk of unintended consequences and would cause practical difficulties for local authorities.
Delaying the mandatory implementation of IFRS 16 <i>Leases</i> until 1 April 2024	Though a marginal decision for CIPFA LASAAC as IFRS 16 was applied across the rest of the public sector and represents high quality financial reporting for leases. This reduced the potential reporting burden for local authorities during the current substantial difficulties.
Infrastructure assets	Although the accounting requirements had not changed for the reporting of infrastructure assets, an issue was raised relating to derecognition of parts of infrastructure assets when they are replaced. This has been resolved in the short term by an Update to the Code and Specifications for Future Codes for Infrastructure Assets , statutory provisions and guidance issued by the CIPFA Task and Finish Group ie CIPFA Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution .
Changes to statutory deadlines for the publication of the audited financial statements.	Government has amended the statutory timetable for the publication of the audited financial statements to 30 September. CIPFA understands the need for this in the short term but considers that this should be subject to review as earlier closing improves accountability and financial management.

- 4.12 The actions above may have prevented a bad situation from becoming even worse, but they have not been sufficient to address the problem in its entirety. CIPFA is of the view that there are reasonable grounds for considering more drastic and urgent actions to address the current situation. These actions could include:
- Public reporting (potentially to full council) by audited bodies and auditors on the reasons for delay, and plans and timescales to address them
 - Collation of reasons for delays by a central body (potentially the FRC supported by PSAA) and monitoring of progress by either the Liaison Committee or an appropriate sub-group
 - A moratorium or limitation of scope on the local audit inspection regime. This would allow audit firms to focus on delivery of audit work and provide the inspection teams at both the FRC and ICAEW with a more normal population of audits to select for inspection.
 - There may be scope for temporarily looking at further reductions in the financial reporting requirements for local authorities particularly where the reporting burden is significant, but this would have to be carefully assessed and applied for the impact on the quality of reporting and for any longer-term or unintended consequences. Such changes are also unlikely to be able to be achieved via the accounting Code and are likely to be better achieved via legislative arrangements to provide an indication that they are a temporary easement.
 - A statutory deadline or cut-off date for reporting years prior to a given date. This would require auditors to issue an opinion by a given deadline by a certain date even if that opinion is qualified in some way or even disclaimed, again this would require changes to legislation.
- 4.13 The implications of these should be carefully discussed with all elements of the system so that the consequences can be properly understood, and any unintended consequences identified. The number of delayed audits mean that the assurances now gained by previous years' financial statements are less useful to decision makers and other stakeholders. This might allow for more radical action to reduce the backlogs particularly for the oldest financial statements where audits are not completed. This must be set against the fact that current information is dependent on opening balances from previous years and the assurance from the audit processes for those years.

5. Long term solutions

- 5.1 The Redmond Review highlighted areas where action was needed to address underlying fragility in the local audit market. Some of these recommendations have been addressed in full or in part, and actions against some have been postponed or deferred as a result of the Covid pandemic. The opportunity should be taken to revisit the Redmond Review recommendations and resulting DLUHC actions, and consider both progress against them and their continued relevance, given the worsening state of the system and the passage of time since the review.
- 5.2 Addressing the immediate crisis in local audit will not be easy. However, failing to address the underlying causes of the current situation creates the very real possibility that a similar position is allowed to develop in future. It is therefore essential that as

we map a route out of the crisis, but that we also map a route forward. We think that this requires action across the following areas:

- market stability
- system leadership
- long term vision - accounts and audit that represent the needs of users
- capacity and capability
- The complexity of local authority accounts

6. Market stability

- 6.1 CIPFA is supportive of the work of Public Sector Audit Appointments (PSAA). The most recent procurement exercise has been important in that it reset audit fees to a more sustainable level and saw two new entrants to the market and the return of one previous provider. These are encouraging signs as they provide the opportunity to refresh the market and a basis from which to provide some longer-term capacity within it. This will take time and does not represent a guarantee for future market stability.
- 6.2 Despite these efforts the most recent procurement took more than one exercise to fully meet the capacity needs of the market and saw the departure of two existing suppliers from the framework. The current system also has no auditor of last resort.
- 6.3 The falling numbers of auditors and accountants is a global phenomenon. The supply of auditors was considered in the BEIS consultation [Restoring trust in audit and corporate governance](#). CIPFA is of the view that the recent crisis means that the situation is more acute in local audit than in the corporate sector and remains concerned that the difficulties encountered to meet the current market needs are an indication that the market remains fragile.
- 6.4 CIPFA is of the view that despite best efforts the local audit market would not be able to withstand any further shocks and the current crisis will take years of action with the current resources to return to pre 2016/17 figures where numbers of audits not making the deadlines were in low single figures. It is not clear that if the backlogs of audits are resolved that the system weaknesses will not repeat themselves. It is more than generally acknowledged that the position has worsened significantly since the Redmond Review made recommendations and since the PAC has commented on the system. Substantial workforce issues remain.
- 6.5 CIPFA considers that there are many cases in the public sector where issues of supply have impacted so significantly that government has intervened. The rest of the UK have systems leaders that are responsible for auditor appointments and supply are not without issue, but their audit supply problems are by no means at the levels of the English local audit system. The workforce strategy is therefore vital to the long-term success of the system, but we have suggested that this should be a part of a more radical approach to system leadership.
- 6.6 CIPFA supports the need for more radical change to the system and make a reality of the Redmond Review recommendations of establishing a strong system leader, dedicated to local audit and responsible for the whole of the local audit system. The

FRC in its new role may be able to fulfil this role but will require the support of stakeholders across the system and from government. The system in England still lacks some important key features, such as a body that is able to act as 'auditor of last resort' and is able to act in instances where the market might fail including in single instances where, for example, there are conflicts of interest and an auditor cannot be 'rotated' so that at least in the short term any gaps might be filled.

- 6.7 CIPFA is of the view that the problems in the system, which is currently failing, are more structural than would be able to be properly resolved with the current proposals and suggests that this might be an appropriate time to reassess and revisit proposals for structural change.
- 6.8 CIPFA will continue to provide support to the whole of the local audit system and particularly its role in the standard setting process, to the FRC and local authority finance teams. CIPFA would suggest that significant resource is put forward to support the proposed workforce strategy and that this prioritises audit supply in the short, medium and long term.

7. Strong system leader

- 7.1 CIPFA supported the original Redmond Review recommendations to establish the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate the local audit system and continues to support the need for a strong system leader. The establishment of the FRC as system leader for local audit is an encouraging development but may not be able to fully address the recommendations made in the Redmond Review and the current system failures.
- 7.2 There are different local audit arrangements in place across the UK. In Scotland, Wales and Northern Ireland retaining responsibility for local audit under the auspices of standalone entities. While acknowledging that the number and variety of audited bodies in the rest of the UK is different to that of England, CIPFA would note that the depth and the breadth of the timeliness issues in England are significantly worse than elsewhere in the UK. CIPFA believes that this is in part due to the less fragmented nature and the system leadership currently in place in the devolved nations. This has also been able to address the issue of market supply and regulation. These systems more closely align with the role the Redmond Review envisaged for OLAR.
- 7.3 CIPFA would wish to acknowledge the work of the FRC in its preparations for the role of system leader in England. CIPFA welcomes the appointment of the new Director of Local Audit at the FRC. Bringing in experience and understanding of the market and its difficulties augers well for the work of this new department. The recent signing of the memorandum of understanding between DLUHC and the FRC is an important milestone.
- 7.4 CIPFA is of the view that a strong system leader will need to take decisions across the local audit system and be able to bring various parts of the system together and affect stepped change. This will include those parts of the system which are not directly within the remit of DLUHC, such as NHS bodies and the Whole of Government Accounts. While the FRC will be able to influence and convene the various stakeholders within the system it is not clear what direct powers it will have to take decisions and make the interventions that will be needed to affect change.

8. Long term vision - accounts and audit that represent the needs of users

Audit that meets the needs of users

- 8.1 CIPFA has maintained its view that public sector audit should align its requirements with International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISAs). CIPFA recognises that these standards have been developed primarily for private sector, but the requirements are not unduly difficult to apply to audits of public sector entities.
- 8.2 What would be of interest to the users of local authority accounts is, however, very different from issues that would concern private sector's users. The focus in local government bodies is on how much is spent on services, and the financial sustainability of the council. The ISAs provide an appropriate framework for these considerations and while they require interpretation and guidance, this is provided through [Practice Note 10: Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom](#) (Practice Note 10) and supplementary material in Audit Guidance Notes.
- 8.3 CIPFA supports high quality financial reporting and the strengthening of public financial management, transparency and accountability that is the result of effective regulation and audit. CIPFA is of the view that the effectiveness of audit in upholding a system of sound public financial management would be best supported if audit attention could be paid to higher-risk areas of the financial statements. CIPFA thinks that local audit should be focused on the things that matter and welcomed the fact that the recent FRC [Major Local Audits Audit Quality Inspection](#) report, issued in October 2022, included a focus on local government specific issues including: expenditure on services, the appropriateness of capital expenditure, investment property valuation and the minimum revenue provision in local government.
- 8.4 It is well understood that the audit of some of the areas of local authority financial statements have been subject to a significant, perhaps disproportionate, audit focus. This adds to the resource pressures for both accounts preparers and local auditors. For example, paragraph 7.4.2 of the Redmond Review report states that:
- “Local government practitioners argue that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and “market value” is not a consideration. Time allocated to the asset valuation process for property and pensions, it is agreed, is considerable and increases the cost of audit as well as, in some cases, leading to delays in the audit being finalised ...”*
- 8.5 Such views were repeated by accounts preparers in a survey undertaken by CIPFA in December 2020 and is supported by our experience of working with accounts preparers and auditors on a day-to-day basis. There is a risk that disproportionate

regulatory burdens lead to pressure for auditors to increase the attention paid to less relevant areas of the financial statements from the perspective of users.

- 8.6 CIPFA endorses the additional guidance and examples provided in Practice Note 10 with regards to the audit of property, plant and equipment and is of the view that there should be a focus on how these standards are applied in practice.
- 8.7 HM Treasury is currently undertaking a thematic review of operational property plant and equipment and undertaking significant research to support the review. CIPFA is keen to see the needs of the user of the accounts supported and understandability promoted in terms of the outcomes of the review. CIPFA is open minded about the outcomes of the review and will support an approach which leads reducing the resource burden for accounts preparers provided this allows for the better reporting such that the users of the accounts have decision useful information on the assets and understandability is improved.

Scope and function of local audit

- 8.8 The scope of local audit covers not just the opinion on the financial statements but a much wider set of responsibilities such as value for money (VfM) arrangements and the exercising of statutory powers in the wider public interest (see paragraph 3.4 above). The delays in the completion of financial statement audits have had an impact on these aspects of auditors' responsibilities. For example, the most recent public interest reports published in 2022 and 2023 covered periods which go back to 2017/18 and 2014 respectively.
- 8.9 The wider role of local auditors is important and should be retained and potentially enhanced. They have the potential to provided stakeholders with the assurance that public money will be well used and prevent loss to the public purse prior to the event rather than several years after the event.
- 8.10 While auditor reporting plays a significant part in highlighting weaknesses within the arrangements at local authorities, it is arguable whether it does so consistently. The timeliness and early reporting of issues would create the benefit that earlier interventions could be taken where appropriate. Greater emphasis on this area of auditors' responsibilities as opposed to those less relevant elements of financial reporting might create more value from the audit process.

9. Capacity and capability

- 9.1 CIPFA considers that capacity and capability of the local audit workforce is an important part of the solutions to current issues. The Redmond Review at paragraph 4.6.3 recognised that:

“There is some evidence that the reduction in fees has led to a decline in the number of examiners with appropriate skills, knowledge and expertise. This has had an impact on the timeliness of audits, the usefulness of auditor reporting to management and the quality of interactions between external auditors and local authorities.”

- 9.2 The Redmond Review recommendation 5 proposed that all auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
- 9.3 CIPFA undertook research into commentaries made in the [ISA 260 Reports for the 2019/20 year](#) (with an update of progress in the following year). This research found difficulties in accessing information but also found that both local auditors and local authorities could better communicate key issues arising from the audit in the public interest. It concluded that there were limited examples of good practice. Improvements can be made to financial statements, the information presented therein (disclosures), the quality of information produced and the working papers. There are indications that finance teams in local government also need support with both capacity and capability. This is reinforced by discussions with auditors who regularly raise concerns about the quality of the financial statements and the documentation which supports them.
- 9.4 CIPFA is the only Recognised Qualifying Body (RQB) for local public audit, so is well placed to support the local audit system from the perspective of capacity and capability. CIPFA's charitable objectives (which include advancing public finance and promoting best practice, regulating, and supporting members and educating and training our student members) mean we are uniquely able and already dedicated to supporting the capability of the system.
- 9.5 CIPFA supports the capability of the public sector and particularly finance teams in local government including (the following examples are from CIPFA's much wider programme of training):
- our accredited diplomas and certificates on topics such as financial reporting standards, finance skills for public sector managers and counter fraud
 - non-accredited tutor led training on our Leadership Development Programme, CFO Leadership Academy, and our 'introduction to' series including Local Government Finance, Collection Fund Accounting and Treasury Management
 - a wide range of webinars featuring, for example, webinars on infrastructure assets, latest developments in the local authority accounting Code, the untapped potential of internal audit, PFI exit strategies and updates for police audit committee members
 - e-learning including free to air micro modules covering topics such as 'the Fundamentals' courses eg Climate Finance, Levelling Up, Public Sector Audit and Fraud, and other e-learning such as CIPFA short and accredited courses.
- 9.6 CIPFA led on one of the FRC subgroups to focus on the capability of the local audit system. Although we await wider developments in the procurement for this CIPFA is proceeding to develop the local audit diploma for key audit partners and audit seniors to align with changes to FRC Guidance for Recognised Supervisory Bodies on the approval of Key Audit Partners for Local Audit. CIPFA has supported the development of the technical advisory service and has been assessing with stakeholders what might be required to suit the needs of the local audit system.
- 9.7 CIPFA is also developing a new performance audit qualification, anticipated to be a offered globally and which focuses on developing expert level methodological and analytical skills in this particularly important area of development for the public sector.

10. Local authority accounts – are they complex?

- 10.1 Various reports have raised the complexity of local authority accounts as an issue. Local authority accounts are based on International Financial Reporting Standards. This is the same reporting structure as the rest of the public sector. There are limited exceptions relating to how the statutory basis of reporting differs from standards-based reporting, but fundamentally they should not be significantly more complicated than the rest of the public sector.
- 10.2 The complexities for local authority accounts comes from the fact that they are mature organisations with numerous corporate objectives, services and transactions that now increasingly operate in more commercial ways, including in partnerships with and interests in other entities. Local authorities are often compared to significant private sector entities in terms of their size and complexity and are often more complicated than other public sector entities. The financial statements of such complex organisations must properly represent their transactions to ensure accountability and transparency.

Length of local government accounts

- 10.3 Stakeholders cite the length of local authority accounts as an issue. It may be useful to compare their length with that of government departments' annual report and accounts, and a brief comparative overview of the length of local authority accounts and central government annual reports and accounts is presented below. Note that, although operating from the same reporting framework, the reporting requirements are not the same, but this is presented as an illustrative picture only and is by no means a statistical or representative sample

Table 1: Comparison of the length of local Government statements of account and Government department annual report and accounts

Local Authority Statements of Account (unaudited 2021/22)	Page Length	Government Department – Annual Report and Accounts (Audited 2021/22)	Page Length
Birmingham City Council	210	Department of Levelling-up Housing and Communities	192
Oldham Council	205	Department for Transport	320
Basingstoke and Deane Borough Council	106	HM Treasury	302

Local Authority Statements of Account (unaudited 2021/22)	Page Length	Government Department – Annual Report and Accounts (Audited 2021/22)	Page Length
Westminster City Council (note these are produced in landscape format)	217	Department for Health and Social Care	435
Derby City Council	160	Department for Environment Food & Rural Affairs	265

Accounting Framework

- 10.4 CIPFA would not recommend anything other than accounting on a resource or accruals basis to ensure proper accountability and provide a better basis for decision making. Cash accounting is still used in some countries but globally more and more governments are moving to accruals accounting. CIPFA is not aware of entities moving from accruals to a cash basis of reporting. Any model other than an accrual model would see local authorities not accounting properly for the resources they hold, not properly reflect their stewardship role, and not promoting intergenerational equity for council taxpayers and service users. Any suggestion that local authorities should move to cash accounting should be seen as a regressive move which would put the sector at odds with corporate reporting trends in the UK and globally.
- 10.5 Local authorities moved to accounting on an IFRS basis following the rest of the public sector in 2010/11. The move was intended to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.
- 10.6 It should be noted that changes to the reporting requirements since the move to IFRS do not always correlate with the reasons cited for delays in recent years. For example, the measurement of most local government non-current assets at current value has been in place since 1 April 1994 and was not a subject of contention until approximately 2017/18, when changes in the regulation of external audit increased focus in this area.
- 10.7 There are other accruals accounting models which could be used and below is a table which sets out the main ones relevant in the United Kingdom. It also presents the main advantages and disadvantages of using each framework.

Table 2: Comparison of accounting frameworks which could be used for local government financial reporting

Accounting Framework	Advantages	Disadvantages
International Financial Reporting Standards	<ul style="list-style-type: none"> • Global financial reporting standards on an accruals basis allows for proper representation of complex entities' transactions. • Standards are subject to a rigorous development process • Allows for comparison with the rest of the UK public sector and compliance with WGA (with limited exceptions). 	<ul style="list-style-type: none"> • Requires adaptation or interpretation for some public sector transactions. • Requires additional statutory reporting so that the revenue account meets the council tax setting and other statutory requirements. • There are significant disclosure requirements (note this is an issue for all entities and accounting standard setters have programmes in hand to review this).
International Public Sector Accounting Standards (note IPSASB standards are aligned with IFRS standards by means of their rules of the road process)	<ul style="list-style-type: none"> • Global financial reporting standards on an accrual basis allows for proper representation of complex entities' transactions. • Standards are subject to a rigorous development process • Allows for comparison with the international public sector. • May require less adaptation for public sector transactions. 	<ul style="list-style-type: none"> • IPSAS standards are developed in a manner which minimises unnecessary differences from IFRS on matters where public and private sectors engage in comparable activity. This is set out in the IPSASB document Process for Reviewing and Modifying IASB Documents (2008) generally referred to as the 'rules of the road'. • The 'rules of the road' process is likely to mean the same statutory adjustments for the local government will be required. • The IPSAS interpretations for public sector context might in some cases be materially different from

Accounting Framework	Advantages	Disadvantages
		<p>those made in the UK public sector, although so far the main differences have been in the speed at which the IPSASB standards respond to changes in IFRS. If the differences are material this would mean that the reporting outcomes will not be the same as the rest of the public sector and that accounting adjustments would be needed for WGA.</p> <ul style="list-style-type: none"> • If a move to IPSAS were to be agreed, this would require at least a year development to meet local government needs and two years for local authorities to prepare for a new accounting framework and so would probably take at least three years to achieve change.
<p>UK Generally Accepted Accounting Practice – FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland</p> <p>(FRS 102 is designed to apply to general purpose financial statements and financial reporting of entities including those that are not constituted as companies and those that are not profit-oriented).</p>	<ul style="list-style-type: none"> • UK GAAP is subject to a rigorous development process on a periodic review basis. • There are simplifications from IFRS and some of the reporting framework might better meet the reporting needs of local government. • This may allow for similar accounting processes to some (but not all) local authority companies which follow this framework allowing for easier consolidation processes. 	<ul style="list-style-type: none"> • No other public sector entities use this basis of reporting and therefore this would not be consistent with the rest of the public sector. • There would need to be consolidation adjustments for WGA. • There is still likely to be the need for public sector adaptations and interpretations. • As UK GAAP is on an accrual basis there would still need to be forms of adjustments to meet statutory accounting requirements. • It is arguable particularly for larger local authorities that a reporting under UK GAAP might not be suitable

Accounting Framework	Advantages	Disadvantages
		<p>for local authorities, particularly those with complex transactions. Its suitability would need to be tested.</p> <ul style="list-style-type: none"> • If a move to UK GAAP were to be agreed this would require two years development to meet local government needs and two years for local authorities to prepare for a new accounting framework and so would probably take four years to achieve change.

10.8 None of the accounting frameworks offer a solution without disadvantages. The current system of IFRS offers global accounting standards comparable with best practice in both the private and public sectors. As IPSAS is developed to be consistent with IFRS it is likely that the accounting outcomes would be similar to the existing ones meaning a system of adjustments (sometimes generally described as statutory overrides) would be required so that what is charged to the revenue account to meet the council tax setting and other statutory requirements would still be needed, so these complexities would remain. A move to UK GAAP has some advantages but significant work would be required for the sector to make this transition and again many of the areas of current contention would not be addressed. UK GAAP would not be consistent with the rest of the public sector, would require consolidation adjustments for WGA and it is likely that the system of statutory overrides would need to be maintained.

Better reporting

10.9 Commentators have referred to a need for simplification and/or streamlining of local authority accounts. CIPFA would note that some of these opportunities might be offered by a change in framework discussed above but most of these comments stem from a desire to align the accounting framework to the statutory framework for deciding what must be charged to a revenue account in accordance with the council tax setting requirement. This would lead to what Sir Tony Redmond referred to as 'near cash accounting' framework. CIPFA does not consider that accounting professionals across the public sector can support such a change and could not support it as a professional accounting institute.

10.10 CIPFA would also note that the Code includes the same prescriptions across the UK and the significant delays in England are not repeated in the devolved administrations of Northern Ireland, Scotland, and Wales. Local authority accounts in

England cannot be less accountable than the rest of the public sector or the rest of the UK.

- 10.11 A discussion is needed though of what “streamlining”, or “simplification” is intended to mean. CIPFA LASAAC has consulted on both simplification and streamlining in 2013 and 2014 culminating in its “Telling the Story” review which lead to changes in the 2016/17 local authority accounting Code. This has been followed by consultations on different areas of presentation in its strategic plan. CIPFA is keen to ensure though that the focus is on accountability to council taxpayers and service users and members as their representatives as the primary users of the accounts. It therefore considers that the focus should no longer be on streamlining/simplification but on better reporting so that the accounts and the statements that accompany them are able to convey their key messages to their primary users (council taxpayers, service users and those that represent them).
- 10.12 CIPFA LASAAC’s strategic plan will therefore focus on the needs of these users and will for example prioritise the work in the narrative report which will focus on performance and summary financial information. This would be able to be a precursor or possibly a replacement to the Redmond Recommendations on the Standardised Statement of Service Information and Cost. So, although CIPFA has supported this recommendation in the Redmond Review and DLUHC’s decision not to proceed with the statement while the current emergency issues are being addressed, this might prove to be a cost-effective alternative.