



## AUDIT & GOVERNANCE COMMITTEE

Monday, 14 March 2022

<b>Subject</b>	MEASURES TO IMPROVE LOCAL AUDIT DELAYS
<b>Report by</b>	Councillor Edward Back, Assistant Cabinet Member for Resources
<b>Supporting Officer</b>	Brian Mew Chief Finance Officer and Section 151 Officer <a href="mailto:Brian.mew@eastsoffolk.gov.uk">Brian.mew@eastsoffolk.gov.uk</a> 01394 444571

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is <b>NOT</b> in the public interest to disclose the exempt information.	Not applicable.
<b>Wards Affected:</b>	All Wards

## Purpose and high-level overview

### **Purpose of Report:**

The purpose of this report is to update members on measures that are being proposed nationally to reduce delays in external audit work, including emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code.

### **Options:**

This report is for information, there are no options to consider.

### **Recommendation/s:**

1. That the key measures committed to by the Department of Levelling up, Communities and Housing to reduce future audit delays are noted.
2. That the proposals to the changes in the Code of Practice on Local Authority Accounting in the UK for 2021/22 and 2022/23, and the consultation response returned to CIPFA on this from the Chief Finance Officer (Paragraph 3.3), are noted.

## Corporate Impact Assessment

### **Governance:**

Schedule 2 to the Local Audit and Accountability Act 2014 (“the 2014 Act”), sets out the timescales in which Local Authorities need to publish, and make available for inspection, their annual accounts and supporting documents. This has been since amended by the Accounts and Audit Regulations 2015 (S.I 2015/234) which has delayed the dates for local authorities to publish and audit their accounts for the 2020/21 and 2021/22 financial years.

### **ESC policies and strategies that directly apply to the proposal:**

The appointment of external auditors does not link directly to the Council’s policies and strategies, however through securing external assurance over the Council’s governance, financial statements, and value for money, this will assist to achieve the priorities of the Strategic Plan.

### **Environmental:**

No impact

### **Equalities and Diversity:**

No impact

### **Financial:**

External Audit ensures the Council is providing accurate and reliable financial information, which in turn informs future budgets and service provision. It also ensures value for money is achieved and increases transparency to local taxpayers.

<b>Human Resources:</b> No impact
<b>ICT:</b> No impact
<b>Legal:</b> No impact
<b>Risk:</b> If audits are not completed in a timely manner, there is a risk errors and misstatements are not identified in time to adjust for future budget purposes, and there is further risk value for money may not be achieved.

<b>External Consultees:</b>	Department for Levelling up, Communities and Housing
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## Strategic Plan Priorities

Select the priorities of the <a href="#">Strategic Plan</a> which are supported by this proposal: <i>(Select only one primary and as many secondary as appropriate)</i>		Primary priority	Secondary priorities
<b>T01</b>	<b>Growing our Economy</b>		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
<b>T02</b>	<b>Enabling our Communities</b>		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
<b>T03</b>	<b>Maintaining Financial Sustainability</b>		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input type="checkbox"/>
<b>T04</b>	<b>Delivering Digital Transformation</b>		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>

P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
<b>T05</b>	<b>Caring for our Environment</b>		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education and influence	<input type="checkbox"/>	<input type="checkbox"/>
<b>XXX</b>	<b>Governance</b>		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>How does this proposal support the priorities selected?</b>			
It notes proposed changes to ensure future audit deadlines are achievable.			

## Background and Justification for Recommendation

<b>1 Background facts</b>	
1.1	Schedule 2 to the Local Audit and Accountability Act 2014 (“the 2014 Act”) sets out the timescales in which Local Authorities need to publish, and make available for inspection, their annual accounts and supporting documents. Traditionally these dates have been 31 <sup>st</sup> May for draft publication and 31 <sup>st</sup> July for final audited publication. These dates have been since amended by the Accounts and Audit Regulations 2015 (S.I 2015/234) which has delayed the dates for local authorities to publish and audit their accounts for the 2020/21 and 2021/22 financial years until the 31 <sup>st</sup> July and 30 <sup>th</sup> September respectively. However, the final date for audited accounts for 2021/22 has since been amended again to 30 <sup>th</sup> November 2022.
1.2	As the Committee is aware, although the Council has met all publication deadlines for its draft Statement of Accounts, the deadline for final audited accounts publication has not been met, with the 2019/20 accounts being signed off nearly a year late in August 2021, and the 2020/21 accounts still not being complete (a provisional Audit Results Report is being presented at this Audit and Governance Committee).
1.3	However, this isn’t just a local issue for East Suffolk Council. In 2018/19, over 200 of the 487 local public body accounts were delayed, prompting Central Government to arrange an independent review of the local audit regime to assess the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England. In July 2019, Sir Tony Redmond was appointed to undertake this task.
1.4	The ‘Redmond Review’ was published on 8 <sup>th</sup> September 2020, and highlighted 3 key problems with the current audit system: <ol style="list-style-type: none"> <li>1. Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014. In particular, Sir Tony identified weaknesses in the functioning and value of local audit, the</li> </ol>

	<p>timeliness of its findings and how these are considered and managed by local authorities.</p> <ol style="list-style-type: none"> <li>2. Market fragility. Sir Tony highlighted how local audit is an unattractive market for audit firms and individual auditors to operate within. He indicated that “without prompt action... there is a significant risk that the firms currently holding local audit contracts will withdraw from the market”.</li> <li>3. Absence of system leadership. The introduction of the localised audit framework in the 2014 Act, (when the previous Audit Commission was abolished), spread roles and responsibilities for local audit across multiple organisations. Sir Tony argues this has contributed to a lack of coherency and makes resolving the weaknesses in the system challenging.</li> </ol> <p>In addition, The Redmond Review highlighted that the statutory accounts prepared by local authorities are widely agreed to be ‘impenetrable to the public’, limiting how effectively taxpayers can judge the performance of their authority.</p>
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## 2 Current position

2.1	<p>Following on from the Redmond Review, on 26<sup>th</sup> November 2021, all Local Government Chief Executives and Section 151 Officers in England received a letter from the Department for Levelling Up, Housing and Communities (Appendix A), stating that 91% of 2020/21 local audits missed the statutory deadline of 30<sup>th</sup> September. This letter asked all Local Authorities to assist however possible in getting any outstanding audits cleared, with more details to follow in future communications on how the system can get ‘back on track’.</p>
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## 3 How to address current situation

3.1	<p>Following on from this initial letter, a further letter was received on 18<sup>th</sup> January 2022 (Appendix B), providing an update on action the government wishes to take to help tackle future audit delays. These measures include:</p> <ul style="list-style-type: none"> <li>• Providing councils with £45m additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting and increased auditing requirements;</li> <li>• Strengthening training and qualification options for local auditors and audit committee members;</li> <li>• Reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risk to councils; and</li> <li>• Extending the 21/22 audit deadline to 30 November 2022, and then 30 September until 2027/28.</li> </ul>
3.2	<p>In addition to these above actions, CIPFA have also produced Emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom and the 2022/23 Code in order to help alleviate delays to the publication of audited financial statements. This consultation was announced on</p>

	<p>3<sup>rd</sup> February 2022, and closes on 3<sup>rd</sup> March 2022. The consultation is on the following two considerations:</p> <ul style="list-style-type: none"> <li>• An adaptation to the CIPFA code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce valuations.</li> <li>• Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.</li> </ul>
3.3	<p>A response to this consultation is being drafted and will include the following points:</p> <p><u>Pausing professional valuations:</u> For the financial year 2021/22, the valuation work is already underway, and will no doubt be nearing completion by the time this consultation has been considered. Therefore, there are no immediate benefits to pausing this work for the Council. Also, if index methods are to be used, these also require professional consideration and will not significantly reduce audit work if scrutiny of these indexes is required by external audit. However, if this delay is approved, there should not be any significant negative impacts for the council.</p> <p><u>Deferring IFRS 16 Leases:</u> This change was originally planned for 2022/23 accounts and does not commence until the 1<sup>st</sup> April 2022. It is therefore unlikely to be a big focus of the 2021/22 audit, so little will be gained in the 2021/22 audit by delaying it. The Council is prepared to adopt this change as planned in 2022/23, however, further delay will not cause any difficulties and provide more preparation time.</p>

#### 4 Reason/s for recommendation

4.1	<p>The measures listed in paragraph 3.1 by The Department for Levelling Up, Communities and Housing are a positive step in tackling audit delays, however, it is felt it is unlikely to reduce the audit delays currently experienced as the extended deadline of the 30<sup>th</sup> November for Final Accounts still would not have been achieved by the Council in the last two years. Any changes that reduce the complexities of public sector accounts would be welcomed by the Council, providing adequate information and scrutiny is still achieved.</p>
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## Appendices

Appendices:	
<b>Appendix A</b>	Letter from Department for Levelling up, Communities and Housing dated 26 <sup>th</sup> November 2021
<b>Appendix B</b>	Letter from Department for Levelling up, Communities and Housing dated 18 <sup>th</sup> January 2022

Background Papers:
None.