



**Oldham**  
Council

## Report to Audit Committee

# Update on General Matters

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

**Officer Contact:** Anne Ryans - Director of Finance

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**28 March 2023**

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### Reason for Decision

It is appropriate to bring to Member's attention the following recent developments:

- a) The change in the External Audit Team overseeing the Oldham Council audit for the financial year 2022/23 and for the new Public Sector Audit Appointments (PSAA) contract period from 2023/24 to 2027/28.
- b) An update on the current review being undertaken by the Public Accounts Select Committee on the timeliness of Local Public Audit Reporting.

### Executive Summary

This report sets out two key matters impacting on this Committee in undertaking its governance role within the Council. These are covered in Sections 2 of the report as detailed below.

### Recommendation

Members note the matters detailed in this report.

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**Update on General Matters**

**1 Background**

- 1.1 There are two items detailed in this report which need to be brought to the attention of the Audit Committee.
- 1.2 The first is to advise of a change in the External Audit Partner appointed by Mazars LLP to oversee the Oldham Council audit. The second issue is to inform the Members of the Committee of an on-going review overseen by the Public Accounts Select Committee into the timeliness of Local Audit Reporting on the accounts.

**2 External Audit Matters**

**The Change in the External Audit Management Assigned to Oldham Council**

- 2.1 There is a process whereby the appointed External Auditor, as part of good professional practice change their external audit personnel on a regular basis (by custom and practice this tends to be every 7 years). In line with good practice our Audit Partner is changing, with Karen Murray being replaced by a new Partner, Daniel Watson. Mr Watson will lead the audit process for the 2022/23 accounts and then for the new PSAA contract period running for the financial years 2023/24 to 2027/28.

**Public Accounts Committee and the Timeliness of Local Audit Reporting**

- 2.2 The Public Accounts Committee is currently undertaking a review into the timeliness of auditors undertaking their work and reporting their findings. This resulted in the evidence from the parties detailed below as provided on 16 March 2023 by:
  - a) Grant Thornton LLP - detailed at Appendix 1
  - b) The Local Government Association - detailed at Appendix 2
  - c) The views of a Section 151 Officer - detailed at Appendix 3
- 2.3 The issues highlighted in this evidence detail clearly the challenges facing the production and subsequent external audit of accounts and will be detailed further in the verbal presentation of the report.

**3 Options/Alternatives**

- 3.1 N/A

**4 Preferred Option**

- 4.1 N/A.

**5 Consultation**

- 5.1 N/A

**6 Financial Implications**

- 6.1 N/A
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- 7      **Legal Services Comments**
- 7.1    N/A.
- 8      **Cooperative Agenda**
- 8.1    N/A.
- 9      **Human Resources Comments**
- 9.1    N/A.
- 10     **Risk Assessments**
- 10.1   N/A.
- 11     **IT Implications**
- 11.1   N/A.
- 12     **Property Implications**
- 12.1   N/A.
- 13     **Procurement Implications**
- 13.1   N/A.
- 14     **Environmental and Health & Safety Implications**
- 14.1   N/A.
- 15     **Equality, community cohesion and crime implications**
- 15.1   N/A.
- 16     **Equality Impact Assessment Completed?**
- 16.1   None.
- 17     **Key Decision**
- 17.1   N/A.
- 18     **Forward Plan Reference**
- 18.1   N/A.
- 19     **Background Papers**
- 19.1   The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:
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File Ref: Background papers are included as Appendices 1 to 3  
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20 **Appendices**

- 20.1 Appendix 1 - Grant Thornton submission to the Public Accounts Committee  
Appendix 2 - Local Government Association submission to the Public Accounts Committee  
Appendix 3 - Section 151 Officer submission to the Public Accounts Committee

### Written evidence submitted by Grant Thornton UK LLP

#### Introduction and context

1. In 2021, the Public Accounts Committee reported that local audit was close to breaking point. Since then there have been some developments which give cause for optimism.
  - The Audit, Reporting and Governance Authority (ARGA) will act as the new systems leader for local audit, with a dedicated unit with local government audit expertise.
  - Public Sector Audit Appointments Ltd (PSAA) has awarded new contracts at more sustainable fees, with new market entrants
  - The National Audit Office (NAO) Code of Audit Practice will apply for the next PSAA contract round, through to 2027/28, providing greater clarity on audit programmes.
  - Delays caused by infrastructure accounting have been largely resolved by a Statutory Instrument and revised accounting requirements from the Chartered Institute of Public Finance and Accountancy (CIPFA).
2. While these changes are positive, the delay in publication of audited accounts across the sector remains severe and of widespread concern. In December 2022, PSAA reported that more than 220 opinions from years prior to 2021/22 remained outstanding.
3. The following are in our view the key issues which need to be resolved:
  - Clarity over purpose: there is a lack of agreement over the role of local audit. An urgent debate is needed over the role and focus of local audit that involves the sector and key stakeholders.
  - Complexity of local government financial statements: accounts are complex and there is a lack of consensus between the sector and stakeholders over areas of audit focus. This is particularly prevalent in the audit of land and buildings.
  - Investment: recruitment and investment in finance teams is essential to resolve the issues faced by the sector.
  - Capacity: audit firms have finite resources. A significant proportion of this is absorbed in resolving the backlog of audits and in dealing with poor governance and financial reporting at a small proportion of bodies.
  - Sanctions: intervention is needed for audited bodies where there are significant failures in financial reporting and an unwillingness to improve.

- Until these issues are addressed, the September deadline proposed by DHLUC will not be achievable. We set out further details on the causes of delay and actions required in the following sections.

## Importance of audited accounts

4. Local authorities, police and fire authorities are responsible for delivering key public services used by citizens and taxpayers every day. The public deserves assurance that approximately £100 billion of net revenue spending annually is properly accounted for, and that there is proper stewardship of funds. Other key stakeholders such as Parliament, DLUHC and the NAO require the same assurance.
5. Proper stewardship of funds and high-quality public audit are also pivotal in establishing trust and local accountability. The risks from poor governance are greater in the context of funding pressures. External audit is one of the key checks and balances in local government.
6. There is consensus on the importance of audited accounts. Delays in publication are of widespread concern. Critical issues may not be identified in a timely manner where audits are delayed. This in turn makes it more difficult for decision makers to address key issues.

## Publication requirements and performance

7. There has been a sharp decline in the publication of audited accounts in recent years.

### Audited accounts published by target date over the last six years

<b>Financial year</b>	<b>Deadline for publication of unaudited accounts</b>	<b>Target date for publication of audited accounts</b>	<b>% audited accounts published by target date (all firms average)</b>	<b>% audited accounts published by target date (Grant Thornton audits)</b>
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

8. Audit resources are finite and under considerable pressure. Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies. In certain instances, audits are open as far back as 2017/18. Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces. This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable.

## System leadership

9. In his report of September 2020, Sir Tony Redmond recommended a body be created to manage, oversee and regulate local audit. Government subsequently confirmed its intention that the system leader for local government should be ARGA, with PSAA continuing with the procurement of local government audit. DLUHC has assumed the role on a temporary basis, working closely with other stakeholders including HM Treasury, CIPFA, ICAEW and PSAA.
10. The FRC appointed the first Director of Local Audit in September 2022, initially in shadow form. The Director will seek to lead and co-ordinate consistent policy, oversee the quality framework for public audit, support steps to strengthen the resilience of the market for the local audit sector and prepare an annual report on state of local audit.
11. A key role of the new system leader will be to determine the role of local audit. This should include a question of the balance between financial statements and Value for Money work. The current focus on the technical aspects financial statements audit is not, in our experience, valued by the sector. This is particularly the case with property valuation, which has no direct General Fund impact. An urgent debate is needed over the role and focus of local audit that involves the sector and key stakeholders.

## Audit Quality

12. In October 2020, the FRC published its first public report setting out the findings from its inspection of major local audits. The FRC reported that 60% of the audits reviewed required improvements. Their greatest concern was in respect of property valuations, with auditors needing to strengthen their procedures around the challenge of management.
13. In subsequent reports (2021 and 2022) the FRC have noted improvements in the quality of audit work. However, they continue to stress the need for improvement in the audit of property.
14. Additional audit focus on property valuations has meant auditors are increasingly reliant on receiving information from expert valuers. This has, in

several cases, led to management commissioning additional work from their valuers and in some cases led to the replacement of valuers.

15. Where an auditor has failed to comply with the auditing framework, the FRC can sanction a firm for such breaches. These powers were first used in January 2022.
16. The FRC's focus has been successful in improving both the quality of audit and the quality of financial reporting in the sector. Firms will defer audit reports where it is not possible to complete work to the required standards by target dates.
17. This has posed a number of issues for the sector:
  - The pressure on resource and the significant technical knowledge has reduced the attractiveness of the sector to audit firms, as well as the work required for auditors and authorities.
  - The complexity of audits, the amount of work needed, and the pressure on resource has made local audit a difficult area in which to recruit.
  - There is a lack of consensus between the sector and stakeholders over the focus of financial statement audits. This is particularly prevalent in the audit of property.
  - Audit firms have invested in quality improvement programmes. The firms increasingly exercise caution when dealing with complex and problematic areas of the audit, such as accounting for infrastructure. This can require involved and time consuming solutions from CIPFA, DLUCH and others.

## Risks in an evolving sector

18. The environment in which local authorities operate has been subject to significant changes over recent years. A notable trend is the increased commercialisation of local authorities, including investment in commercial property and in wholly owned companies including housing and energy companies. Challenges faced include weaknesses in councils' decision-making processes, the failure of investments and group companies, novel transactions, non-compliance with laws and regulations, serious weaknesses in accounts preparation, or even bribery and corruption allegations.
19. Acute financial pressure and risks arising from commercialisation have manifested in several recent high-profile examples across the local government sector. These include Section 114 Notices at Northamptonshire, Croydon, Slough, Nottingham City, Northumberland and Thurrock Councils.
20. Timely auditor reporting is of heightened importance where there are significant governance and financial failings. Inevitably, such complex issues take audit time as well as specialist input. The most challenging audits can absorb vast amounts of audit resource, sometimes running into several



thousand hours. This constrains the ability to progress other more routine audits.

## Complexity of accounts and reporting requirements

21. Local authority accounts are inherently complex and many authorities are increasingly engaging in innovative or unusual projects, such as unusual lease agreements, trading companies, investments in commercial property or property trusts.
22. CIPFA's Code introduced International Financial Reporting Standards (IFRS) from 2010/11, recognising the framework as a gold standard of accounting which provides better quality financial information.
23. Since the introduction of IFRS, financial statements contain many estimates and assumptions, generally required to be set out in notes to the accounts. The impact is particularly notable in accounting for operational and investment property, pension liability balances and financial instruments.
24. Following the adoption of accruals accounting and IFRS by the sector, governments have sought to protect council taxpayers from volatility in taxation arising from accounting entries which do not have an immediate impact on cost of services. This has been achieved through 'statutory overrides' in secondary legislation. Whilst protecting taxpayers from short-term volatility, the overrides complicate the accounts and make them more difficult for the lay reader to understand. This increases the risk of error and omission in their preparation.
25. Another complexity of the current reporting framework has led to unnecessary delay in the conclusion of audits. Local authorities which administer local government pension funds are required to publish full Pension Fund accounts in the same document as their local authority accounts. This means that the audited accounts of the host authority and related fund cannot be finalised until both audits have been completed. Decoupling them would support more timely publication of audited accounts.

In summary, local authority accounts are overly complex and do not serve the needs of users. A consensus is needed on the revised financial reporting.

## Quality of draft accounts

26. The quality of draft accounts presented for audit can have a significant bearing on the time taken to complete an audit. Whilst many sets of draft local authority accounts are prepared diligently and are free from material error, this is far from universal. In particular, where authorities are dealing with complex or unusual transactions – for example in respect of group or leasing arrangements – they may lack the skills and expertise to process the relevant accounting entries correctly.

27. Where draft accounts are not reflective of relevant facts and circumstances, auditors should challenge underlying accounting treatments. This can result in material and sometimes fundamental amendment of the accounts. Such amendments cause duplication of effort. They can also delay planned timetables and result in publication being delayed.
28. As highlighted earlier, the sector has seen an increase in new and complex arrangements. Too often, accounting implications are not understood by authorities. In addition, auditors are often not sighted on such transactions until receiving draft accounts.
29. Understandably, accountants may not have prior experience of similar arrangements. Incorrect accounting may have a real impact on balances and reserves. We regularly see authorities being reluctant to commission external accounting advice. In many cases, accounting advice is eventually commissioned which, had it been available at the outset, could have saved both cost and time.
30. Proper completion of the CIPFA disclosure checklist and thorough proof-reading and internal challenge of the draft accounts can make a significant difference to the quality of draft accounts submitted for audit.
31. Unfortunately, the quality of too many financial statements and working papers are not adequate. Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.

## Responding to the audit process

32. Developments in the local authority sector and in technology have led to a significant increase in the complexity of financial systems. More complex systems require increased technical expertise in their set-up, administration and oversight.
33. Additional audit work is required to understand data sources and test manual adjustments for appropriateness, as well as undertaking planned audit procedures. Populations obtained for sampling can often consist of a large volume of transactions, including debits and credits rolled forward for a number of years. Significant time can be spent in cleansing populations or selecting further items to test.
34. Evidence received during audits also varies in quality. With thorough and well-explained evidence, testing can be completed quickly and efficiently, however where it is weak and lacking in detail the testing process takes much longer.
35. With increased audit focus on property valuations and pension liabilities, authorities should be prepared to respond to audit queries and challenge on underlying assumptions including data inputs and the bases of valuation.

36. A well-documented accounts closedown process, which captures key data sources, internal and external contacts and their responsibilities and a well-organised approach to working paper preparation, review, version control and filing all help to smooth the audit process and add resilience should there be a change of finance personnel.
37. Clear and disciplined focus on the part of both preparers and auditors on what can be done early is also paramount. It is good practice for this to begin with an open and honest debrief at the end of each audit cycle, with a view to continuous improvement.
38. In our experience, the audit process works efficiently and effectively where there is regular communication and collaborative working between the auditor and audited body.

## Capacity

39. Local audit is a highly specialised field. Auditors need a depth of knowledge and sector experience along with an understanding of key legislative and regulatory provisions. Local auditors also have a broader remit than their commercial counterparts, with responsibility for assessing local bodies' arrangements to secure VfM, and quasi-judicial roles on public objections to accounts and public interest reporting.
40. Significant numbers of experienced audit staff have left the audit profession in recent years, moving into non-audit roles within firms providing audit services and into the public and wider private sector. A combination of long working hours, the compression of deadlines, pay constraint and also a significantly expanded audit has proven unattractive for new and experienced auditors alike.
41. Local authorities have experienced similar pressures in maintaining capacity in their finance teams. The limited availability of staff with the relevant qualifications, skills and experience to deal with the complexity of work, compile working papers and financial statements of a high standard within the time available has made preparation of accounts increasingly challenging. In a sector with an ageing demographic, there is a growing need to recruit and train the public sector finance professionals of the future.
42. In October 2022, PSAA announced the outcome of its latest procurement. Six suppliers were successful, with the scale of the contracts varying depending upon the capacity of the supplier. Three existing firms, Grant Thornton, Mazars and Ernst & Young, will continue. KPMG returns to the market, alongside two new suppliers, Bishop Fleming and Azets. The two new entrants will serve just 7% of the market.
43. PSAA also advised bodies to anticipate a major re-set of total fees for 2023/24, involving an increase in the order of 150% on the total fees for 2022/23. This level of increase, which goes a considerable way towards reversing a decade long series of fee reductions, should give audit firms the confidence to invest for the future. It will help to ensure audit quality as well as

increasing capacity and making it easier to retain experienced auditors. The fee increase is welcome, but does not mask the challenges in building capacity and clearing backlogs.

## Governance

44. Leadership, behaviour, culture and appropriate financial management are all important, so having the right members on an audit committee, with an appropriate remit and training for those involved is key.
45. CIPFA has prepared guidance for audit committee members. This incorporates legislative changes and new expectations following the Redmond Review as well as a knowledge and skills framework.
46. We agree with Redmond's recommendations in relation to governance and where applicable we encourage audit committees to understand the reasons for delays in publication of audited accounts. Whilst recognizing that delays can and do occur, audit committees should hold management and auditors to account for preparing and monitoring delivery plans.

## Recommendations

47. As we have outlined in this submission, there remain many challenges ahead if local audit is to come through its current crisis. The following are in our view the key priorities for regulators, the government, local authorities and auditors:

### **For FRC, ARGA and Government**

R1. To determine how to deal with the backlog of local government audits. In particular, to consider whether temporary flexibility can be introduced into the local audit framework to allow reduced scope audits to be undertaken on backlogged accounts. We consider this would be of benefit to the local government entities freeing them up for more forward-looking activities with limited detrimental impact on the users of the financial statements given some outstanding financial statements date back to 2019.

### **For FRC and ARGA**

R2. To determine and agree with Government the purpose of local audit and the required focus on the financial statements and value for money audit elements respectively, particularly in relation to the audit of land and building assets.

R3. To consider whether local auditors can be represented as key stakeholders in local audit system meetings convened by the new Director of Local Audit.

R4. To consider whether Annual reports on the state of local audit should highlight instances of poor financial reporting and longstanding delay to the publication of both unaudited and audited accounts.

### **For Government**

R5. To require statutory officers to attest to the effectiveness of their financial reporting process, in line with Sir Donald Brydon's recommendation. This should form part of Government account requirements and non-compliance should result in intervention.

R6. To introduce intervention with commissioners where authorities do not afford sufficient priority to their financial reporting responsibilities.

R7. To decouple the reporting requirements for Pension Funds and Administering Authorities.

### **For FRAB, CIPFA LASAAC and Government**

R8. To reframe the accounting code to ensure financial statements provide the information needed by Government and elected members to manage and govern the local government sector. This should include consideration of Whole of Government Accounts (WGA) requirements, particularly with regard to compliance with IFRS.

R9. To address Redmond's recommendation for summarised and accessible financial information to be made available to citizens, either through specifying required content within Narrative Reports or by introducing a standardised summary statement.

### **For local authorities**

R10. To make new investment in and keep under review the adequacy of in-house financial reporting skills, paying close attention to succession planning and professional training, and look to collaborate with other authorities or commission independent support where additional capacity or expert advice is required.

R11. To ensure more consistent and robust completion of CIPFA's Disclosure Checklist and allow adequate time for robust internal quality assurance before draft accounts and working papers are presented for audit.

R12. Where significant accounting estimates are made, ensure the underlying assumptions and judgements are clearly documented and that appropriate experts are employed by the local government entity to support management on these judgements and estimates. These judgements should routinely be reported to Audit Committees.

### **For Audit Committees**

R13. To hold management and auditors to account for preparing and monitoring delivery plans.

R14. To undertake a regular assessment of whether they have appropriate membership, training and access to the professional support they need to effectively discharge their responsibilities.

R15. To report to full Council on an annual basis with their assessment of the accounts preparation and audit process.

**For auditors**

R16. To focus on continuous improvement in delivering work early and fostering effective working relationships where changes and potential complexities are identified, discussed and planned for as soon as practicable.

R17. To consider whether to issue statutory recommendations where significant failures in financial reporting or governance are identified, delays become unacceptable or where insufficient attention is paid to timely financial reporting.

R18. To focus on making local public audit a more attractive career choice and promote the value of public sector audit and the wider societal benefits of robust and independent scrutiny.

R19. To support the local audit workforce strategy led by the Financial Reporting Council.

**February 2023**

## **Written evidence submitted Local Government Association (LGA)**

The Local Government Association (LGA), as the national voice of local government, welcomes the opportunity to submit evidence on introducing timeliness of local auditor reporting.

As set out in the conclusions of the [report from the National Audit Office \(NAO\)](#) on the timeliness of local auditor reporting, it is clear local audit is in crisis. The late delivery of audit opinions is concerning to councils, given the important role that external audit plays in assurance over taxpayers' money both centrally and locally. This crisis is following increasing financial challenge and service pressures on local authorities since 2010, with the recent COVID-19 pandemic and increased audit demands exacerbating long-standing problems in the audit landscape.

The LGA recognises there are a number of causes to this crisis including the limited number of firms within the market and a shortage of suitably qualified auditors working for those firms. A [survey](#) of councils' experience of local audit undertaken by Public Sector Audit Appointments (PSAA) last year found that the main reason given for delayed audits was resourcing issues on the part of the auditor. While we do not disagree that a shortage of resources and capacity in councils, particularly of suitably qualified staff, will also have had an impact on the timeliness of audit, feedback from our members suggests that long-term causes of delays are more related to the pressures on auditors. It remains the case that a big majority of councils have approved their draft (unaudited) accounts on time each year.

This situation has been made worse by additional work for auditors caused by tighter and stricter regulation of auditors following audit failures in the private sector. In particular, some of the current problems with local audit are perceived to stem from auditors having to spend time on valuations of assets where the value of the asset plays little or no role in the decision making or accountability of the local authority, for example, infrastructure assets such as roads. We do not believe this to be a good use of scarce audit resources. Furthermore, service demands on local bodies have increased considerably due to the COVID-19 pandemic.

Following the recommendations to improve audit delays made in the [Redmond Review](#), the Government [responded in December 2020](#). We support the Government's response and the measures proposed. We also welcome the announcement of £45 million of funding to support councils to implement changes needed to respond to new audit requirements and Redmond's recommendations. With the important role that external audit plays in assurance, local audit delays must be a high priority with further measures implemented urgently. Whilst it has been acknowledged in the NAO's report that some actions have been taken to address delays, we support the NAO's call for the Government to set out a detailed timetable outlining the steps to be taken and when and the time by which it expects to restore timely audited accounts.

We also welcome the creation of the Audit Reporting and Governance Authority (ARGA) as system leader as well as the appointment of a new Director of Local Audit to lead it. However, it is unlikely that the ARGA will be fully functioning until 2024 at the earliest. In the meantime, the new Director of Local Audit, temporarily based in the Financial Reporting Council (FRC) on behalf of DLUHC, is acting as system leader. At the time of writing, the memorandum of understanding between DLUHC and FRC outlining how this will work has not been published. We would therefore welcome clarity on this and on plans to improve the local audit system.

We welcome the move of the deadline for published audited local authority accounts to 30 September for six years, until the end of the next appointing period. This was a necessary move to enable the new audit contracts to be procured. In March 2021, the deadline for preparing draft (unaudited) accounts had been extended 31 July for 2021 and 2022. Unless DLUHC takes action, the deadline for preparing draft (unaudited) accounts will revert to 31 May from 2023. In a paper entitled "[Measures to improve local audit delays](#)" published in December 2021, DLUHC said this reversion would be "subject to consultation". This [consultation](#) was eventually [published on 16 February 2023](#) and was open for just two weeks.

We are calling on DLUHC to extend the 31 May deadline to 30 June for preparing draft (unaudited) accounts for the 2022/23 year and onwards. For the past two years, most councils have been able to finalise their draft accounts by the published deadlines of 31 July but will be under greater pressure to do this for their 2022/23 accounts if the deadline reverts to 31 May 2023. We therefore believe a deadline of 30 June is more realistic. Given the extension of the audit deadline to 30 September, it is unlikely that audit work will be planned to commence soon after 31 May and so reverting to this earlier deadline will cause an unnecessarily tight turnaround for councils. This could also impact on the quality of draft accounts delivered for audit which could, perversely, create more work and lead to further delays.

As [announced by PSAA](#), new contracts will apply from the 2023/24 audit following a procurement during 2022. There is a likelihood of a major re-set of audit fees for 2023/24, involving an increase in the order of 150 per cent on the total fees for 2022/23. With councils already facing a range of financial pressures, we are calling for this significant increase in fees to be reflected in future allocations of funding and resources to local authorities.

**March 2023**



## Written evidence submitted by Mr Kelvin Menon

I have had a career spanning more than 15 years in both Local Government and latterly the Police. There is no doubt in my mind that the Local Auditor model we have in place simply does not work. Up to about 10 years ago almost all local bodies met the deadlines for preparation of accounts and auditors achieved the necessary reporting timescales. Then things began to slide and, following the impact of Covid, the system seems to be broken. I do not believe there is a single reason as to why this has happened, which makes a quick fix difficult, and it has been the result of a number of different factors which I set out below:

### 1. The increasing technical and reporting complexity of accounts

The financial statements for even a small Council can exceed 100 pages. The rush to compliance with IFRS and a “one size fits all” stance for reporting has made the action production of accounts a very time consuming process which requires a high level of technical skills. Despite all of this increased reporting and disclosure the accounts have actually become even more impenetrable to tax payers.

### 2. Compliance with accounting standards that have little relevance in public accounts

A significant amount of time is wasted by preparers and auditors on areas that actually have no relevance to the accounts due to the way public accounting works. In my own authority our audit opinion is delayed as we argue over the value of our Police Headquarters in the accounts. We have, at great cost, obtained a professional valuation for existing use but the auditors disagree as to the assumptions made by the valuer. In the end as the asset is in use the value does not really matter as we have no intention of selling it and any increase or decrease in value gets reversed out by capital accounting rules. A relaxation of accounting requirements for these sorts or areas would speed up the process and reduce costs immensely. Surely it cannot be too hard to have a reduced reporting regime for smaller entities as is the case with Corporate Entities?

### 3. Auditors fear of the FRC

There have clearly been some audit failings in the private sector audit market as has been evidenced by the number of fines imposed on some firms. This has coloured audit firms attitudes to risk – even in respect of public sector organisations where no such issues have been apparent – and so made the audit so much more intensive and time consuming than it needs to be. When challenged as to why such and such is being audited in such detail the report is always that it is being done because that’s what the FRC requires.

### Shortage of skilled staff

The audit commission provided a steady stream of auditors and accountants skilled in public audit. Now public audit is reliant on getting its recruits from the larger pool of qualified accountants and corporate auditors. Unless public audit can be made as attractive as corporate audit it will continually be the poor relation. Firms need to do more to set up a dedicated public

audit training scheme to try and increase the numbers of staff available. On authorities the increasing complexity of accounts means more skilled staff are needed – these are difficult to find especially for smaller bodies. This can mean that accounts are not prepared to the required standard leading to further delay and increased work for auditors

#### 4. Increasing complexity of local Government Operations

Councils are increasingly involved in commercial activities, joint ventures, subsidiary companies all of which add to the complexity and risk for the audit. This means that they take more time and cost more

#### 5. Lack of Capacity in the Public Audit Market

Due to the tight profit margins and barriers to entry there is very little capacity in the audit market. This can only be remedied by either setting up a public audit body, like the audit commission, to take on public audits or by allowing more firms to enter the market even if they have no public audit experience. There are many local audit firms in the top 100 which no doubt would like to enter this market but are deemed to not have the requisite expertise. This is despite public audits being done to the same standards and reporting requirements, with a few exceptions, as corporate entities. Opening up the market would not only bring in more capacity but could also drive value. That said there also needs to be a recognition that if public accounts are going to be held and judged to the same standard as Corporate accounts then the fees need to be comparable. The auditor's fee for a £1bn County council is significantly lower than that charged for a £1bn turnover company and yet both require the same level of professional rigour.

Fundamentally though the question has to be asked what and who are the accounts and public audit for? If the accounts and audit are there to give local taxpayers information and confidence in the finances of their local Council for example then they are clearly not fulfilling that function. A little more focus on that and rather less on technical compliance would probably not go amiss.

**March 2023**