



Department for Levelling Up,
Housing & Communities

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**Department for Levelling Up, Housing
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To: Local Authority Chief Executives and
Chief Financial Officers in England and
Local Audit Firm Partners

14 March 2023

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

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

Local Audit System Leadership

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

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

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

Local Audit Delays

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

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

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

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

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

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

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

Yours sincerely,

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

CATHERINE FRANCES