

21 December 2021

Via email to Ian Curtis @FBC

Email

generalenquiries@psaa.co.uk

Dear Ian

### **Audit of Fylde Borough Council**

Thank you for your email on behalf of the Fylde Borough Council Audit and Standards Committee, and our subsequent discussion.

I hope that I can convey to you that PSAA recognises and shares your disappointment and frustration at the delayed 2020/21 audit process. As I am sure you are aware, the position for the sector as a whole for 2020/21 was extremely disappointing with only 9% of audits completed.

As our Chair commented in our statement on the delays, *"Delayed audit opinions have a real public-facing impact, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers. These latest results reflect a further significant deterioration in performance, underlining the imperative for the whole system to work together urgently to restore timely completion of audits before public confidence and trust are seriously damaged."*

We also appreciate the inconvenience that delays cause you directly, and we are very conscious of the adverse effects which flow from delayed audit opinions. They include disrupted related work plans, uncertainty about the organisation's financial position, and weakened governance and accountability processes. Perhaps most obviously, delayed audited accounts are less valuable and relevant.

The widespread concern over the timeliness of local government audit opinions was reflected in an NAO report published in March 2021, *'Timeliness of local auditor reporting on local government in England'*. [Timeliness of local auditor reporting on local government in England, 2020 - National Audit Office \(NAO\) Report](#). This was followed by two sessions of the Public Accounts Committee (PAC) inquiry into the timeliness of local government audits following the NAO's report. The Committee heard from representatives of the firms, Sir Tony Redmond, MHCLG and PSAA (myself). The PAC has recently published its report from this enquiry, [Local auditor reporting on local government in England - Committee of Public Accounts - House of Commons \(parliament.uk\)](#). There were a number of recommendations, including that *'as a matter of urgency, the Department should write to the PAC by September 2021 with a detailed plan and timetable for getting local audit timeliness back on track'*.

In common with all stakeholders in the local audit system (including the auditors themselves), we want to see the earliest possible return to a position in which virtually all local bodies are able to publish their audited accounts by the target date specified in the Accounts and Audit Regulations. We are aware that there are a number of significant obstacles to be overcome before this can happen. They include:

- a significant backlog of delayed 2019/20 audit opinions, of which 60 are still outstanding, and now the backlog of 2020/21 opinions;
- more demanding regulatory requirements which increase the time and resources needed to complete each audit;
- local bodies entering more frequently into innovative transactions which require detailed examination by auditors; and
- the challenges posed by the pandemic including its implications for auditors' work in relation to the financial resilience of bodies.

As you have experienced directly there is also a shortage of auditors to undertake local audits, in tandem with widespread concerns about the number of Key Audit Partners to lead them and the number of trainees choosing to stay in the sector post-qualification. This is affecting all firms and all parts of England. The shortage of local auditors has also been highlighted by the Healthcare Financial Management Association in its February 2021 briefing paper *'The NHS external audit market – current issues and possible solutions'*. It noted that *'Some members have reported that their auditor has resigned or has declined to extend the current audit contract. For the 2019/20 audits there were three NHS organisations that were unable to appoint an external auditor following the required audit appointment process'*.

The FRC is the statutory regulator, and it has sent a clear message that auditors must ensure that the current circumstances do not undermine the delivery of high-quality audits, and that audits should continue to comply fully with required standards. As reported to the PAC, safeguarding the quality of the audit is the primary consideration for each engagement.

We have consulted local bodies about our prospectus for the next appointing period commencing in April 2023. In parallel we have consulted audit suppliers through a market engagement exercise. Importantly, both consultations asked for views and suggestions about how the system can respond to the challenges outlined as speedily as possible. We will also be looking to support growth and attract additional capacity into the market in our next significant procurement due to occur in 2022. Please note that local audit can only be carried out by firms registered with ICAEW to do so.

Unfortunately, there are no easy solutions which we or any other party can simply action. The reality is that returning to a more predictable and stable position is going to take some time and will be a gradual process. As you would expect we work closely with DLUHC and the new Local Audit Liaison Committee (which it chairs) so that all stakeholders are fully aware of the delays within local audit. Last week DLUHC issued *'Measures to improve local audit delays'*, described as *'a new package of measures to support the improved timeliness of local audit'*, and available at this link [Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/614442/Measures_to_improve_local_audit_delays_-_GOV.UK_(www.gov.uk).pdf). Hopefully the document demonstrates to you how seriously the issue is being taken and the commitment to resolving it.

#### Publishing date

I also wanted to ensure that you are aware that whilst there is an expectation in the NAO's Code of Audit Practice that auditors report on a timely basis insofar as they are able to do so, there is no statutory date for the audit opinion to be given. This is because the Accounts and Audit Regulations set out at 10(2) that where an audit is not concluded by the specified publishing date the body must instead publish a notice stating that it does not have audited accounts and the reasons why.

This means that bodies that do not have audited accounts by the specified date are able to comply with their statutory requirement. We recognise that this does not reduce the inconvenience or alleviate the disappointment that comes with the delay to publishing accounts by the due date. However, it does enable the body to inform its public and other stakeholders of the reasons for the delay. The wording of the statement is at the discretion of the authority.

I hope that this is helpful in providing some context of the current issues in local audit to the frustration you are experiencing along with many other bodies, and that the stakeholders including ourselves are committed to take action to address the challenges.

Yours sincerely



Tony Crawley  
Chief Executive, PSAA