

Audit Quality Monitoring Report 2021

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

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Executive Summary

We present our Annual Quality Monitoring Report for 2021. This covers the work of local auditors appointed by PSAA for the 2019/20 financial year, which was undertaken during a difficult time for all concerned. The systemic issues that were highlighted in Sir Tony Redmond's Review continued and were compounded by the pandemic.

PSAA is committed to working with all parties so that quality audit services are provided to its opted-in bodies. PSAA has adopted the International Auditing and Assurance Standards Board's *Framework for Audit Quality* (IAASB framework) as the model for its appointing person audit service quality monitoring arrangements. This is widely regarded as a definitive statement on overall audit quality. The IAASB framework recognises there is a complex interplay of many factors in audit quality and notes the need for a rounded approach. We have taken the attributes that IAASB Framework expects to be present within a quality audit and distilled them into three tests which we use to monitor the quality of audit services provided by auditors under our contracts:

- Adherence to professional standards and guidance;
- Compliance with contractual requirements; and
- Effective relationship management.

In September 2020 Sir Tony Redmond's review of local authority financial reporting and external audit was published. The report highlighted the significant challenges and turbulence within the new system of local audit, emphasising that at present local government audit is under-resourced, undervalued and is not having impact in the right areas. The report made a number of recommendations in relation to external audit regulation, smaller authorities' audit regulation, the financial resilience of local authorities and the transparency of financial reporting.

In December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) delivered its initial response to the Redmond Review setting out proposed actions to implement the majority of the recommendations made in the report. This was followed by a further announcement in May 2021 which proposed that the Audit, Reporting and Governance Authority (ARGA) would carry out the hugely important role of the local audit systems leader. ARGA is the new regulator being established to replace the FRC and will contain a dedicated local audit unit which will play a key leadership and coordination role in the local audit framework. MHCLG consulted in Summer 2021 on how the new arrangements would function.

The next year is likely to continue to be very challenging for all involved in local audit, but DLUHC (formerly MHCLG) will take forward and refine its proposals in its role as interim systems leader until ARGA is created, and the FRC will create a local audit unit in shadow form.

The problems that Sir Tony Redmond reported on continue to impact significantly on the timely completion of local government audits. Only 45% of audit opinions were completed by the publishing date of 30 November 2020, compared with 58% in the previous year. This has now fallen even further with only 9% for 2020/21 audits of financial statement opinions completed (noting the reversion to a 30 September publishing date). 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. It is imperative that the whole system works together to restore timely completion of audits in order to rebuild public confidence and trust,

especially as the lack of a statutory deadline for the audit opinion means that co-operation is essential to make the system work as the public has the right to expect it to.

Adherence to professional standards and guidance

Information on the quality of local audit work in this report comes from the reports provided by the audit regulators, the Financial Reporting Council (FRC) and the Institute of Chartered Accountants of England and Wales (ICAEW). The FRC issued its audit quality inspection [News | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/news-and-features/news/financial-reporting-council-frc-report) (FRC report) containing the results of its audit quality inspections of 2019/20 engagements on 29 October 2021. It also included the results of reviews undertaken by the Quality Assurance Department (QAD) team of the ICAEW, and firms' own internal quality monitoring arrangements. The scope of the report covers the whole of local audit, including those not opted-in to the PSAA appointing person arrangements and NHS bodies, but we are able to use the findings to inform our contract monitoring arrangements.

FRC Reviews

The FRC is the primary regulator, and it reviewed the audits of 20 of the 299 bodies that meet the major local audit definition (Expenditure in excess of £500 million). This sample comprised of 11 local authorities, five local authority pension funds and four health bodies, focusing in particular on audits with 'higher risk attributes'. The report sets out that six financial statements audits (across four of the seven firms reviewed) did not meet the required standard (which is being assessed as 'good or limited improvements required'). In the previous report the FRC judged nine audits as not meeting the required standard. The improvement in the number of audits requiring no more than limited improvement was seen as encouraging whilst too soon to confirm as a trend. The FRC identified that they had seen tangible actions taken by the firms to respond to quality issues previously identified, but further work was needed to ensure that the observed improvement is both permanent and continuous.

The FRC's reviews found that the quality of VFM arrangements conclusion work across all firms remains high, with all 15 reviews meeting the standard (auditors do not carry out this work at pension funds). The new Code of Audit Practice changes the reporting of the VFM arrangements work from 2020/21 onwards to be a commentary rather than a binary conclusion.

The FRC report commented specifically on three firms where it reviewed more than one engagement, those with the largest share of major local audits. The FRC reviewed nine Grant Thornton (GT) financial statement audits: six were assessed as meeting the required standard, and three as improvements required. This is an improvement on the previous year when only one of the six GT audits reviewed met the required standard. The FRC reviewed four EY audits, one of which was assessed as improvements required compared to the previous year where all three EY audits reviewed met the required standard. Four Mazars financial statements audits were reviewed and all were assessed as meeting the required standard. This is an improvement on the previous year where the two Mazars audits reviewed were assessed as 'significant improvements required'. Two of the remaining three firms inspected (BDO, Deloitte and KPMG) had individual audits that required more than limited improvement, but the FRC did not indicate which firms they were.

The FRC report highlights that the key areas requiring action by audit firms include improving the evaluation and challenge of assumptions used in valuing operational and investment property. The testing of expenditure also needs to be strengthened.

The FRC report cited some good practice examples such as the increased use of experts to help audit highly specialised property assets and the challenge of management's property valuers. Responding to revenue recognition risks was also highlighted.

ICAEW reviews

The FRC report also includes the findings of both the ICAEW reviews of audits of bodies that do not meet the major local audit definition, and the firms' Internal Quality Monitoring (IQM) reviews of audits.

The ICAEW reported that 15 of the 17 financial statement audits that they reviewed met the required standard across all firms, along with all of the associated VFM arrangements work. One audit required improvement and one required significant improvement.

Internal Quality Monitoring Reviews

The IQM results covered 24 individual audits including 12 major local audits. Of these 22 were considered to be of a good or limited improvements standard (11 for major local audits). There were two audits assessed as requiring improvement and no audits needed significant improvements.

We will follow up the results and resulting action plans of all firms to get assurance that the reported concerns are being actively addressed.

Effective relationship management

We surveyed all of our 2019/20 Section 151 officers and Audit Committee chairs to judge the effectiveness of relationships between bodies and their auditors. We received responses from 198 (40%) Section 151 officers and 116 (24%) Audit Committee chairs. Respondents highlighted the local impact of delayed audit opinions, the shortage of auditor resources, the level of scale fee variations, and the extent of the audit work now required on property and pension valuations.

Disappointingly only 20% of responses said that the audit committee had met privately with the auditors. These private sessions are widely acknowledged to contribute positively to the organisation's governance arrangements.

Overall communication remains an area for improvement. We were pleased to note that 80% of respondents had had frequent communication with their auditors on matters relating to the ongoing pandemic (remote working and the increased audit procedures covering going concern/financial resilience, valuations and accounts disclosures). However, this fell to 60% for communications on the timeliness of audit work.

We have provided firms with details of the anonymised analysis of survey responses to enable them to develop tailored improvement plans where appropriate. Communication is the area where most improvement can be made with delays in reporting the need for an audit deferral or a fee variation highlighted in responses.

Compliance with contractual requirements

Our biggest concern is the timeliness of audit completion. For the year covered by this report the number of audit opinions completed by the publishing date set out in the Accounts and Audit Regulations 2015 (or equivalent) of 30 November 2020 was 214 (45%) compared with 279 (58%) in the previous year (31 July 2019). In 2017/18 87% of opinions were issued by the publishing date, the first time it had been 31 July.

The NAO's report [Timeliness of local auditor reporting on local government in England](#) examined the factors causing the delays seeking views from audit firms and stakeholders. This corroborated the information provided to us by firms as part of our contract management processes, highlighting a number of contributory factors including:

- Competing resource and workload pressures for both auditors and audited bodies;
- Increasing audit risks such as investment in commercial enterprises;
- Meeting heightened quality expectations of the professional regulators;
- Local bodies preparedness for the audit process;
- The impact of the pandemic involving both additional audit procedures; and
- The delaying impact of remote working and increased sickness absence.

The instances where firms did not have sufficient staff to undertake particular audits is symptomatic of the vulnerability that has developed in the local audit market, and the lack of trainees and qualified staff with the appropriate knowledge to undertake this work.

It is clear that firms are responding to the challenge from the FRC to improve inspection results by prioritising audit quality, ensuring that they have obtained and evaluated all of the evidence necessary for their opinion.

Whilst the Accounts and Audit Regulations specify a date for publishing financial statements (draft or otherwise) there is no statutory deadline for an auditor to provide an opinion on those financial statements. Consequently given the fundamental importance of the work of auditors complying with auditing and ethical standards, we have no means to enforce a contractual requirement for an audit opinion to be provided by the publishing date.

Overall

In summary, the results of the professional regulatory reviews of financial statement work showed improvement with 78% (2018/19 62%) of financial statements audits reviewed assessed as requiring no more than limited improvements. This reflects the efforts that all firms have made to address the concerns of the FRC and ICAEW. The outcome is consistent with the reviews of corporate audits, but continued improvement is still required, as further improvement across all audit sectors is expected. We have discussed with the firms their plans to address the matters raised by the professional regulators.

In the last year of the current VFM arrangements audit requirements all work inspected was assessed as meeting the required standard.

However, the fact that only 9% of 2020/21 audits were completed by the expected publishing date of 30 September is extremely concerning for all with an interest in local government. As concluded by the NAO in their report on local government audit timeliness in 2019/20:

'Given the increasing financial challenge and service pressures on local authorities since 2010, local councils need strong arrangements to manage finances and secure value for money. External auditors have a key role in providing independent assurance on whether these arrangements are strong enough and recommending any action. The late delivery of 2019-20 audit opinions is concerning, given the important part that external audit plays in assurance over taxpayers' money both centrally and locally.'

The IAASB framework notes that all parts of the financial reporting supply chain have a role in contributing to and encouraging an audit environment that supports high quality audits. The

role of systems leader will be critical for the sector as a whole to deliver the required improvements. As a member of the newly established Local Audit Liaison Committee and more widely we will continue to work with regulators, auditors, finance staff and those charged with governance to improve audit quality and the timeliness of audit delivery.

We have started the procurement process for the Next Appointing Period. Our strategy includes encouraging more audit firms to provide local audit services, one of the factors that will contribute to the return of timely completion of local audits and the sustainability of the market.

Introduction

1. This report summarises the results of the Quality Review Process (QRP) for 2019/20 engagements and related contractual monitoring. This is the second such report produced by PSAA under our appointing person responsibilities conveyed by the Local Audit (Appointing Person) Regulations 2015 (the Regulations).
2. PSAA has a duty under the Regulation 7(b) to design and implement appropriate systems to:
 - oversee issues of independence; and
 - monitor compliance against contractual obligations.
3. An [overall summary](#) of our approach is provided on our website.

PSAA approach to audit quality monitoring

4. Our approach is grounded in the International Auditing and Assurance Standards Board (IAASB)'s Framework for Audit Quality. This is widely regarded as a definitive statement on overall audit quality. We have taken the attributes the IAASB expects to be present in a quality audit and distilled them into three tests, which we use to consider the quality of audits and auditors under our contracts:
 - adherence to professional standards and guidance;
 - compliance with contractual requirements; and
 - relationship management.
5. Table 1 shows the main evidence sources that PSAA uses to monitor audit quality for the three tests to provide a rounded view of audit quality.

Table 1 PSAA's audit quality monitoring

PSAA test	Evidence source
Adherence to professional standards and guidance	Professional regulatory reports; and Firm transparency reports
Compliance with contractual requirements	Contract performance indicators Method statement monitoring
Effective relationship management	Satisfaction survey scores

Source: PSAA

6. The relationship between the IAASB framework and our audit quality monitoring arrangements is shown in the Table 2 below. Audit quality formed a core part of the evaluation of tenderers in our 2017 audit procurement. Tenderers were encouraged to have regard to the IAASB Framework in the development of their submissions.

Table 2 IAASB Framework elements

Key element/PSAA test	Adherence to professional standards and guidance	Compliance with contractual requirements	Effective relationship management
Inputs:			
Values, ethics and attitude	Y	Y	Y
Knowledge, skills, experience and time	Y	Y	Y
Process:			
Audit process and quality control procedures	Y	Y	
Outputs:			
Auditors' reports	Y	Y	Y
Transparency reports	Y		
Professional regulators' reports	Y		
Key interactions	Y		Y

Source: PSAA

7. While responsibility for providing audits of appropriate quality rests ultimately with an appointed auditor, audit quality, efficiency and effectiveness are a shared responsibility: for appointed auditors and audit firms; for PSAA as Appointing Person; for chief finance officers (CFOs) and audit committees; for regulatory and supervisory bodies; for the Comptroller & Auditor General (C&AG) and the National Audit Office (NAO); and for government. The IAASB framework notes that all parts of the financial reporting chain have a role in contributing to and encouraging an audit environment that supports provision of an audit service of the expected quality.

Adherence to Professional Standards and guidance

8. Information on the firms' adherence to professional standards and guidance comes from the results of professional regulatory reviews completed by the Audit Quality Review team (AQR) for the Financial Reporting Council (FRC) and the Quality Assurance Department (QAD) for the Institute of Chartered Accountants in England and Wales (ICAEW), the principal Recognised Supervisory Body (RSB) for local audits in England.
9. The AQR reviews a sample of the largest local government and NHS audits. These are known as 'major local audits' and are those bodies with income or expenditure above

£500 million. The QAD reviews a sample of local audits that fall below this threshold. The regulatory reviews covered both financial statement and VFM arrangements work. The publicly reported results cover local government and police bodies which have not opted in to the PSAA appointing person arrangements as well as NHS bodies. However, our judgement is that we are able to use the findings as reported to inform and support our contract monitoring arrangements.

10. The professional reviews focus on identifying areas where improvements are required and individual ratings will reflect a wide range of factors, which may include size, complexity and risk of the individual audits selected for review. The FRC notes that because of this and the small non-statistically valid nature of the review sample, the inspection findings may not be representative of audit quality across a firm's entire major local audit portfolio. Nonetheless, any inspection cycle which identifies audits requiring more than limited improvements is a cause for concern and indicates the need for a firm to take action to achieve the necessary improvements.
11. The FRC issued its audit quality inspection [News | Financial Reporting Council \(frc.org.uk\)](https://www.frc.org.uk/news/2021/audit-quality-inspection) (FRC report) containing the results of its audit quality inspections of 2019/20 engagements on 29 October 2021. This contained the results of its reviews, those of the ICAEW regarding non-major Local Audits, and also the firms' own internal quality monitoring. This provided the results of 61 audit file reviews, although VFM arrangements work was not reviewed in every case.
12. In January 2022 the FRC reported that they had fined Mazars £250,000 in relation to a 31 March 2019 year end audit. The FRC considered that it was necessary to impose a sanction to ensure that Mazars' Local Audit Functions are undertaken, supervised and managed effectively. The FRC had previously reported the grade of this inspection in their 2020 report. The FRC's 2021 report, as noted above, concluded that the audit quality results of their inspection of four Mazars' audits showed significant improvement compared to the prior years. All the audits were assessed as requiring no more than limited improvement. The FRC commented that these results reflect positively on the efficacy of actions that the firm has taken in response to previous quality issues but highlighted the need to maintain a focus on audit quality and ensure this standard is achieved on future inspections.

Financial Statements

13. Auditors are required to give an opinion on whether the financial statements of an audited body give a true and fair view of its financial position and of its income and expenditure for the period then ended. They have other reporting responsibilities with respect to the preparation of the financial statements, the remuneration report and other information published with the financial statements.
14. The FRC reported an improvement in the number of audits requiring no more than limited improvement compared to the number of such audits identified in the 2018/19 report. They concluded that whilst this is encouraging it is imperative that the firms work to build on this progress to ensure the observed improvement is both permanent and continuous.

15. The FRC report commented specifically on three firms where it reviewed more than one engagement, those with the largest share of major local audits. The FRC reviewed nine Grant Thornton (GT) financial statement audits: six were assessed as meeting the required standard, and three as improvements required. This is an improvement on the previous year where only one of six GT audits met the required standard. The FRC reviewed four EY audits, of which one was assessed as improvements required. Four Mazars financial statements audits were reviewed and assessed as meeting the required standard. This is an improvement on the previous year where the two audits reviewed were assessed as 'significant improvements required'. Two of the remaining three firms inspected (BDO, Deloitte, and KPMG) had individual audits that required more than limited improvement, but the FRC did not indicate which firms they were.
16. Firms are required to perform a full Root Cause Analysis (RCA) for each audit assessed as requiring more than limited improvement. This should help establish the reasons for individual instances of inadequate audit quality and how consistently high audit quality might be achieved.
17. As in previous years key audit quality findings relate to challenge and corroboration of the valuation of properties (council dwellings, specialised properties and investment properties), particularly evaluating and challenging the underlying valuation assumptions.
18. Other key findings highlighted for improvement include strengthening audit procedures to test the accuracy and occurrence of expenditure, improving evidencing of consultations such as technical panel discussions, and concluding on modified opinions.
19. The FRC reported that improvements had been made in the testing of journal entries, but that this had still to be applied consistently across all audits: No key findings were reported in respect of the testing of journal entries, but limited improvement requirements were noted at nine audit inspections.
20. We noted from the FRC's report that their risk-based review scope included matters of particular interest to local government audit including the exercise of auditor's additional powers and duties, disclosure of senior officer remuneration and the adjustments between the accounting and the funding base such as minimum revenue provision.
21. Table 3 shows the results of this year's inspection reviews together with those from earlier years completed under PSAA's initial post-Audit Commission remit in respect of transitional arrangements which included firms' internal quality monitoring results moderated by PSAA.

Table 3 Financial statements – inspection review gradings

Results of the reviews completed by engagement year

Grading	Total 2019/20*	Total 2018/19*	Total 2017/18#	Total 2016/17*#
Good or limited improvements required	29 78%	17 63%	20 57%	31 59%
Improvements required	7 19%	8 30%	11 31%	13 25%
Significant improvements required	1 3%	2 7%	4 11%	8 15%

sample includes NHS and other bodies not within the PSAA contract#sample includes internal quality monitoring results*

Source: FRC audit quality inspection reports

22. The sampling methodology used means that changes in ratings from one year to the next are not necessarily indicative of any overall change in audit quality. Nevertheless, any inspection cycle which reveals audits requiring more than limited improvements is a cause for concern and indicates the need for a firm or firms to take action to achieve the necessary improvements. However, assessing an audit as needing improvement or significant improvement does not necessarily mean either that the audit opinion was incorrect or that the financial statements were materially misstated.
23. Following each review the FRC sent a private report to each Audit Committee Chair, with a follow up meeting (at the discretion of the audited body). The FRC plans to meet further with those chairs where the quality of the audit was assessed as requiring more than limited improvement. We welcome the FRC involving Audit Committee Chairs in the process.
24. As part of their review of the firms the FRC also considered:
- RCA and audit quality initiatives;
 - audit training and methodology;
 - Engagement Quality Control (EQC) review; and
 - prior period adjustments.

25. The FRC reported improvements at individual firms being clearly linked to the implementation of audit quality improvement programmes. Individual firms were encouraged to ensure that practitioners complete required mandatory training on a timely basis, increase the amount of mandatory training that auditors are required to undertake, and train local auditors how to effectively evaluate key assumptions in investment and operational property valuations. Firms were also encouraged to maintain focus on the robustness of EQC reviews, and in responding to prior period adjustments caused by material error.
26. The FRC report did highlight a number of specific examples of good practice including in some of the areas where they have raised concerns previously. Such examples included:
- response to revenue recognition risk by considering individual material revenue streams;
 - use of an auditor's expert to assist with the audit of complex high-risk property valuations;
 - challenge of management's property valuer in respect of unreported material valuation uncertainties; and
 - appropriate and robust responses to audit findings;
 - o delaying issuing audit report until appropriate evidence obtained and evaluated;
 - o insisting on relevant uncertainty disclosures; and
 - o responding to control deficiencies identified by internal audit.

Value for money arrangements

27. Auditors are required to give a value for money (VFM) arrangements conclusion as to whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
28. We are pleased that the assessments of VFM arrangements work have continued to show that this is meeting required standards. Both the FRC and the ICAEW reported for all reviews that the audit work to support the VFM arrangements conclusion met the required standard (Table 4).

Table 4 VFM arrangements – inspection review gradings

Results of the reviews completed by engagement year

Grading	Total 2019/20*	Total 2018/19*	Total 2017/18#	Total 2016/17*#
Good or limited improvements required	32	27	20	31
Improvements required	0	0	11	13
Significant improvements required	0	0	4	8

**sample includes NHS and other bodies not within the PSAA contract*

#sample includes internal quality monitoring results

Source: FRC audit quality inspection report

29. 2019/20 was the last year of engagements under the 2015 Code of Audit Practice. The new Code of Audit Practice applies from 2020/21 onwards and seeks to address widespread concern that a binary VFM conclusion is of limited value to the bodies. The new Auditor's Annual Report will provide a commentary on a body's VFM arrangements, which provides scope for more tailored and forward-thinking observations.

Transparency Reports

30. The FRC's Local Auditors (Transparency) Instrument 2015 requires firms that conduct major public audits to report annually on information specific to their local audit responsibilities and includes:
- a statement on the effectiveness of the functioning of internal quality monitoring arrangements in relation to local audit work;
 - a description of independence procedures and practices, including a confirmation that an internal review of independence practices has been conducted;
 - a statement on the firm's policies and practices to ensure that Key Audit Partners continue to maintain their theoretical knowledge, professional skills and values at a sufficiently high level; and
 - confirmation that all engagement leads are competent to undertake local audit work and staff working on such assignments are suitably trained.

31. The Transparency Reports published by firms in December 2020 provide information on the results of regulatory reviews of 2018/19 engagements and the responses of firms to the matters raised. Some firms produce a specific 'Local Audit' Transparency Report, whilst others adopt the practice of publishing a firm-wide Transparency Report. Transparency Reports can be found on firms' websites.
32. We found that the required disclosures were contained within each contracted firms' Transparency Report, but these were not always clear. Arguably it is more helpful for local audit stakeholders if a separate report is produced covering 'Local Audit' requirements or, if a combined firm-wide report is produced, the matters relating to Local Audit are clearly delineated.
33. The reports also present an opportunity for the firms to:
- provide relevant, reliable and useful information that facilitates engagement between firms and users of financial information;
 - communicate a balanced self-assessment of the challenges the firms face in relation to audit quality and the effectiveness of their actions to overcome them, including how the independent non-executives at the firms have assessed this; and
 - promote confidence (where warranted) in their systems, processes and governance to engender public trust.
34. The reports also documented how audit quality was taken account of in partner and employee remuneration packages.
35. We noted that the Transparency Reports highlighted where firms had received 'unsatisfactory' reviews from the regulator, both in terms of the response to audits being judged as requiring significant improvement, or where the FRC had taken measures against the firm.

Compliance with Contractual requirements

36. PSAA monitors firms' compliance with contractual requirements by considering performance against a range of contract indicators and also their compliance with agreed method statements.
37. PSAA has not been required to take formal action against any firm in respect of noncompliance with contractual requirements in respect of 2019/20 engagements.

Contract performance indicators

38. During the year PSAA has reported publicly on firms' performance against targets of particular interest to opted-in bodies. This has included information on delivery of audit opinions and other outputs in a timely manner and matters which facilitate publication of annual accounts.
39. The NAO Code of Audit Practice from 2020/21 onwards includes the expectation that the audit report containing the opinion will be issued by the publishing date set out in the

Accounts and Audit Regulations 2015 (or equivalent) wherever the auditor can do so under the auditing standards and the guidance issued by the NAO. Established practice in local government is that if auditors are unable to issue an unqualified opinion at the publishing date, then they will delay issue rather than issuing a qualified opinion. Regulation 10(2) of the Accounts and Audit Regulations 2015 specifically provides for the circumstances where an audit of accounts has not been concluded before the specified publishing date with the requirement of the body to publish a notice reporting the delay and the reasons for it.

40. Auditors undertook the 2019/20 audits during a very difficult time for all concerned. The systemic issues highlighted by Sir Tony Redmond's Review continued and were compounded by the pandemic. Auditors needed to perform additional audit procedures because of the resulting uncertainties, and to work remotely. These difficulties contributed further to the ongoing problem of timeliness of local government audit completion in England. Although the Government assisted the sector by moving the publishing date to 30 November it was disappointing that 264 (55%) opinions were not given by that date.
41. The concerns raised by this position were such that in March 2021 the NAO published the factual [Timeliness of local auditor reporting on local government in England](#) providing a summary of the causes and consequences of the delayed report. This was followed by a [Public Accounts Committee](#) inquiry and report.
42. Subsequently, the timeliness of opinions has continued to deteriorate. Only 9% of 2020/21 financial statement opinions were provided by the publishing date of 30 September 2021.
43. It is clear from correspondence and the information received from our client survey that timeliness is considered by our clients as a key element of receiving a good quality audit service. Delayed opinions disrupt related work plans for all parties, create uncertainty in relation to the organisation's financial position, and weakened governance and accountability processes. Perhaps most obviously, delayed audited accounts are less valuable and relevant.
44. The causes of the delays are widely documented and covered by both the NAO report and PAC inquiry referred to earlier. Tackling the issues and reversing the current trend is a priority for the local audit system and its participants.

Specific Powers and Duties of Auditors

45. Auditors have specific powers and duties under the Local Audit and Accountability Act 2014 (the Act) in relation to matters of lawfulness including considering whether to issue a public interest report concerning any matter that comes to their attention during the course of the audit, which they judge should be considered by the audited body or brought to public attention; or considering whether an audited body should consider formally, and respond to in public to recommendations they are making (Schedule 7 of the Act).
46. The table below shows how auditors have used their specific powers in the period covered by this report.

Table 5 Use of auditors' specific powers

Use of statutory powers by date of issue

Period	Issued Public Interest Report under Sch 7 (1)	Made written recommendation under Sch 7 (2)
Year to October 2020	2	1
Year to October 2021	2	6
November 2021 to February 2022	1	2

Source: PSAA

Objections

47. Local electors have the right to raise formal objections with the auditor about the financial statements and other matters, a unique feature of local government audits.
48. We recognise that not all cases can be resolved within nine months (the historical industry benchmark), for example, where objections are related to complex or difficult legal cases, or where a resolution is delayed because an auditor is reliant on others for responses.
49. However the current shortage of experienced local auditors, which is particularly relevant for the exercise of an auditor's quasi-judicial powers, has impacted on the ability of all firms to conclude on objections. As at 30 September 2021 there were 48 objections unresolved within a nine-month time frame.
50. The NAO's 2020 Code of Practice requires auditors to use best endeavours to complete their work on objections within six months including informing the objector and the body of their decision. We welcome particularly the requirement that where this is not possible that electors and bodies will be provided with a progress update every three months until the objection is decided.

Non-compliance with Terms of Appointment

51. There have been no significant areas of non-compliance with PSAA's Terms of Appointment (ToA) for the year ended 31 March 2021 (the period of work covered by this report). We reported two occasions during the year where firms were late in requesting extensions to individual's involvement at specific engagements.

Independence issues

52. The ToA require firms to notify PSAA of any potential threats to their independence which may arise. We received six such notifications in relation to 2019/20 engagements. In all

cases the matter was dealt with appropriately with relevant disclosures being made to the audit committees of the bodies concerned.

53. We reported one occasion where a firm self-reported that tax services had been inadvertently provided to a local authority subsidiary company. Appropriate action was taken to mitigate the risk to auditor independence and a change in auditor appointment was not necessary in this case.

Non-audit services

54. Firms are able to provide certain non-audit services to audited bodies subject to the requirements of the FRC's Ethical Standard and the NAO's Auditor Guidance Note 1. Where the fee for such services exceeds the higher of £18,000 or 20% of the scale fee then the firm must seek PSAA's confirmation that undertaking such work will not compromise their independence as auditor. The requirement that local auditors provide a VFM arrangements conclusion is relevant to this judgement. The number of requests made has significantly reduced from earlier years because of changes to the Ethical Standard.

Table 6 Non-audit service requests

Number and value of non-audit service requests for the last three financial years

Year	Number of requests approved for non-audit services	Total fee value of requests approved
2018/19	10	£336,773
2019/20	5	£203,550
2020/21	0	£0

Source: PSAA

55. We have no concerns about how firms are operating their internal control systems for maintaining their independence.

Complaints

56. Complaints can be an indicator of poor quality audit services. Under our complaints policy PSAA can consider complaints that relate to a possible failure in service by one of the firms of appointed auditors, but we cannot consider complaints about the professional judgements and decisions made by auditors, or the process followed in relation to elector rights as these are matters for the courts. We have a protocol with the relevant regulators for dealing with such complaints.

57. In the year ended 31 March 2021 there were no complaints made to PSAA that were relevant to our responsibilities. We referred two complainants to the ICAEW as the appropriate regulatory body.

Method Statement

58. Certain parts of firms' invitation to tender (ITT) responses in the 2017 PSAA procurement have been incorporated as 'method statements' in their contracts. The method statements cover a variety of topics that were all assessed as part of the tender evaluation process. PSAA has triangulated its monitoring of compliance with audit quality service information from other sources such as the professional regulatory reviews and client surveys. A client focussed version of the 'method statement' was provided to all bodies as part of our client survey and formed part of firms' planning and reporting communications with audited bodies.
59. As audit is a highly regulated profession, much of the firms' method statements is contained in the expectations of the auditing standards in planning, conducting and reporting on an audit. The results of the regulatory reviews are reported above.
60. The findings from our client survey were that on this narrow point broadly 90% of finance directors and audit committee chairs considered that allowing for the pandemic their audit service was meeting expectations as set out in their method statement to a greater or lesser extent. We report further on the results of the client survey below.

Data Confidentiality

61. We have reviewed and confirmed that firms' data confidentiality arrangements remain appropriate. There have been no notifiable breaches of data confidentiality. The introduction of cloud-based data holding and two-factor authentication arrangements have done much to improve overall security.

Social Value

62. In accordance with our obligations under the Public Services (Social Value) Act 2012, we used the procurement undertaken in 2017 to seek to improve the economic, social and environmental well-being through the supply of audit services under our contract, whilst acknowledging that this is difficult to frame and measure in a national context.
63. Our procurement required firms to specify how many apprenticeships, additional training, development and work experience opportunities would be provided as a result of the contract, and the measures that would be put in place to target these posts at people from more deprived communities. Across our five firms over 400 positions were committed to be provided across the life of the contract. Information provided by the firms shows that for the contract period to 2019/20, 243 (60%) positions have so far been created. These opportunities provide positions for graduate trainees, school leavers and include year-long work placements.
64. A particular focus for all firms has been school leaver programmes for those who have not followed the university entry route (which had been the traditional joining route).

Information on backgrounds has been more challenging to validate but firms have provided details of the strategies deployed to widen their talent pool and ensure inclusive attraction in order to provide greater opportunities for young people from disadvantaged backgrounds. Whilst measurement of performance has been challenging, we are satisfied that our initiative has contributed to the encouragement of firms to address these important issues.

Effective relationship management

- 65. Effective relationship management is a key component of audit quality. Satisfaction surveys are the most effective way of obtaining this information.
- 66. We commissioned for a second year the LGA's Research & Information team to administer the survey to provide assurance about independence and confidentiality. The views of both CFOs and Audit Committee Chairs were sought, recognising the importance of the auditor's relationships with both Management and Those Charged With Governance. Given the pandemic and the current volume of data returns that bodies are required to complete, we used a shorter list of survey questions than for 2018/19. We surveyed all our bodies, and we received responses from 116 (24%) Audit Committee chairs and 198 (40%) Finance Directors. We reported the survey results in September 2021. A full copy can be [found on our website](#). Whilst the response rate for finance director was consistent with the previous year, we were pleased that the number of audit committee chairs responding had increased from 75 to 116.

Survey Results

- 67. The survey results reflected the current challenges, and respondents expressed their concerns about the wider local audit regime. Responses highlighted the local impact of delayed audit opinions, the shortage of auditor resources, the level of scale fee variations, and the extent of the audit work now required on property and pension valuations.
- 68. Last year's survey results found that audited bodies were concerned about the quality of auditor communications and the relevant skills, and so this year we asked specific survey questions about these areas as well as the impact of the pandemic. This year's results show that there is still room for improvement. Only 40% of finance directors and 60% of audit committee chairs considered that they had received information on fee variations on a timely basis. However, the results were more positive in relation to the auditor providing an explanation of the cause of variations at 56% and 69% respectively.
- 69. Two-thirds (66%) of finance directors thought that communications during the audit were sufficiently frequent. The pandemic impacted on the audits in multiple ways, and around 80% of respondents thought they had had frequent communications on remote working and the increased audit procedures covering going concern, valuations and accounts disclosures. This fell to 60% for communications on the timeliness of audit work.
- 70. Last year 25% of finance directors reported that they did not think the audit team had the skills to deliver the audit. This year we asked for feedback by grade. Satisfaction with Key Audit Partners' skills was highest at 82%, followed by managers at 77% and audit team

members at 58%. The lowest rating of 40% satisfaction was for those outside the local team (auditors' experts and firm technical team members).

- 71. We asked some relationship specific questions. Consistent with last year, 66% of finance directors felt their auditor could be approached as a sounding board when required.
- 72. However, only 20% of responses said that the audit committee had met privately with the auditors, a drop from 53% last year. This is concerning as these private sessions are widely acknowledged to contribute positively to an audit committee's efficacy and specifically to the relationship between the auditor and the committee.
- 73. We also asked for views on how useful the audit had been in adding value and delivering improvements. A much higher level of Audit Committee chairs (72%) responded positively compared to finance directors (39%), one of the biggest differences across all of our questions.
- 74. We have shared the information with firms to assist in improving the quality of audit services.
- 75. The nature of the survey means that it is difficult to draw direct comparisons between firms but there is work to be done by all to achieve improvements. The systemic issues referred to by many will need to be addressed if clients' concerns to receive a timely quality audit are to be addressed.

Actions

- 76. The FRC report contains the firms' responses to its findings. All highlight the ongoing investment that they are making to their audit training and procedures and the firms' oversight of the process. Some are undertaking Root Cause Analysis to identify and understand the drivers for the identified poor quality audit work. This will be used to make changes to training, work programmes and review processes.
- 77. We will be discussing with all firms the results of the reviews and the responses that they are putting in place. We discuss matters with firms on a regular basis to discuss delivery of the contract and the quality of audit service provided.